SomnoMed®

The Leader In COAT™

(Continuous Open Airway Therapy)

2016 ANNUAL REPORT

TABLE OF CONTENTS

SOMNOMED LIMITED
CHAIRMAN'S REPORT

Dear SomnoMed Shareholder,

It is with pleasure that we present to you our annual report for the financial year 2015/16.

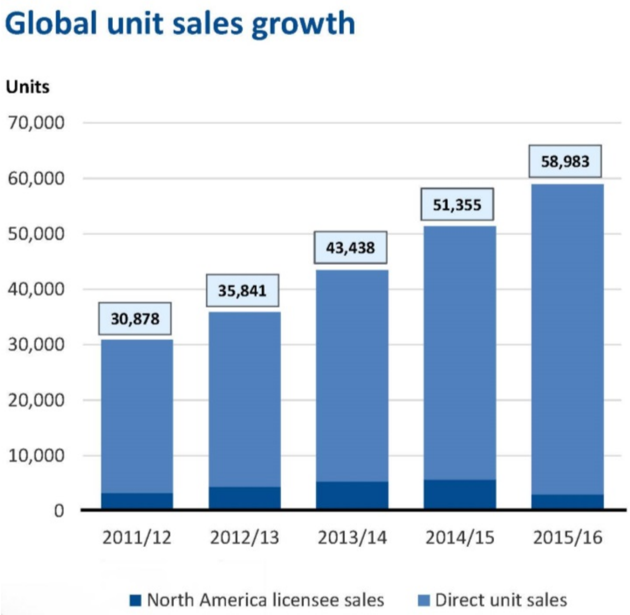
BUSINESS OVERVIEW

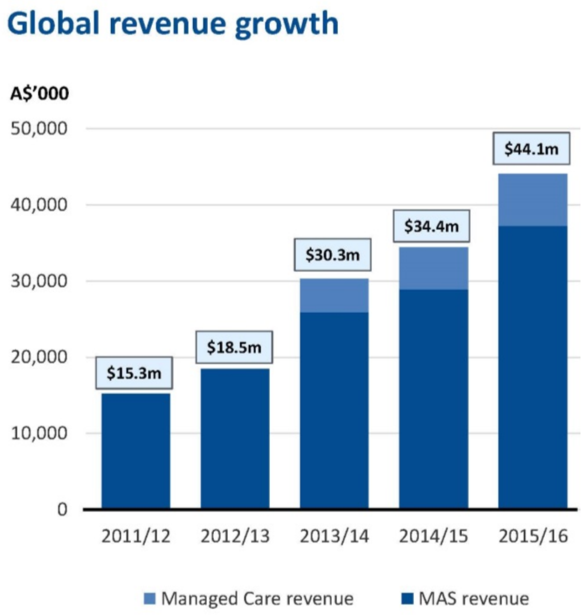
The financial year 2015/16 showed continued strong growth in revenues, driven by high worldwide growth in sales of our SomnoDent® devices. Total revenues grew by 28% year on year to $44.08 million, of which sales revenues generated from the sale of our devices contributed $37.25 million (+28.9%) and other revenues of $6.83 million (+23.3%).

The year showed a continuation of the trend of high growth in sales of devices made by our company and a weakening of devices sold through licensees. Total direct sales of SomnoDent® devices grew by 22.6% to 55,975 and sales made by licensees dropped year on year by 47% to 3,008 units, bringing total sales for the year to 58,983 MAS devices (+14.9%).

Continuing strong growth in global regions

North America and Europe, which were responsible for 90% of our global sales showed strong growth in the year, with increases in their direct sales of 27.7% and 20.6% respectively. The APAC region (which includes Japan and Korea) grew by 8.4%, reflecting the maturity of the Australian market, which represented 77% of this region's sales.





High growth achieved in the US was the result of the success of our new products, which generated 12.6% of our North American sales during the year. These new products included SomnoDent Fusion®, the new signature device, and SUAD™ devices, which became part of the SomnoDent® family of products following the acquisition of Strong Dental in November 2015. Sales of Herbst, Herbst Advance® and SomnoDent Air®, our new mid-price devices launched during the previous year, grew very strongly and accounted for 35.3% of our direct sales.

The success of our new mid-price devices is a sign of SomnoMed gaining market share in the US, as our company was previously not represented with devices in this market segment. Some of the new mid-price devices are preferred by certain practitioners treating patients who receive a lower reimbursement amount from their insurers (e.g. Medicare).

Our European business also performed very well during the past year. Operating in 16 countries SomnoMed sold over 22,000 units, showing a growth of 20.6% year on year. The core countries of Germany, France, Holland and Sweden showed excellent growth. Our newer but smaller markets, most of which were only entered into in 2014/15, are on their way to showing strong volume growth and promising great potential for the future.

Sweden and Holland are the most developed COAT™ markets in the world. In these markets around half of all sleep apnea patients going into treatment receive an oral appliance and the other half Continuous Positive Airway Pressure ("CPAP"). In both markets SomnoDent® treatments are fully reimbursed by the public health insurer and SomnoDent® is the dominant device. Other countries in Europe are at various stages of implementing reimbursement for COAT™, ranging from partial reimbursement, to private health insurer reimbursement only to privately paid markets, where no reimbursement is received. It is our expectation that a number of countries will implement full reimbursement for COAT™ in the near future.

Growth in APAC was behind our expectations. All APAC markets we are operating in are privately paid markets, whereas in some markets CPAP is fully reimbursed. Consequently, the share of COAT™ is generally low compared to CPAP and surgery, whilst not practised widely in North America and Europe, is still dominant in some Asian countries. The signs are encouraging for SomnoMed in the future in a number of these Asian countries, as leading practitioners notice the rising adaptation of COAT™ in the US and Europe and observe excellent results with patients they treat with a SomnoDent® device.

Our DentiTrac® compliance control system was being tested in clinical studies in several countries during the year. Compliance, which is considered essential in the treatment of obstructive sleep apnea, is very high in patients using SomnoDent® devices. Compared to CPAP, which typically shows a compliance of around 60-70%, SomnoDent® achieves a compliance of over 90%. More importantly, studies show that SomnoDent® patients normally use their device all night, whereas CPAP patients often stop using their mask half-way through the night.

Compliance control will become increasingly important in the future as organisations employing professional drivers, pilots and other machinery operators are looking for an alternate treatment to CPAP but require continuing compliance data. New regulations introduced by the European Union also require diagnosed sleep apnea patients to prove they are in treatment in order to retain their driver's licence.

Acquisitions during the year

During the financial year 2015/16 our company completed three acquisitions. In July 2015 our company acquired the remaining 50% of SMH Biomaterial AG ("SMH"). SMH is the owner and supplier of our Flex lining material, which differentiates our devices from other devices. This material makes our devices more comfortable, more durable, is easier to fit and minimises decolourisation and the development of odours. Proprietary quality materials are of great strategic importance and offer significant competitive advantages compared to the standard devices made in dental laboratories. SMH is also supplying our SomTabs cleaning tablets, which are enjoying growing support from our patients.

In November 2015 we acquired the business of Strong Dental in Canada. Strong Dental produced SUAD™ devices, which are in the high price segment, metal frame reinforced and marketed to patients who are severe teeth grinders. Strong Dental's business was fully integrated in our business by the end of the third quarter of the financial year and is now operating as SomnoMed Canada and giving SomnoMed direct access to this market.

In April 2016 SomnoMed BV, our European holding company, increased its stake in our Netherlands business from 75% to 87.5%. The remaining 12.5% tranche will be acquired in March 2017 and SomnoMed will then own 100% of this business.

In April 2016 SomnoMed formed a new company, Sleep Centres America, Inc. ("SCA"), which obtained an exclusive worldwide license (excluding the State of Texas) from Simple Sleep Services LLC. ("S3"), a company based in Texas, to roll out and operate S3's successful business model. This "Direct To Patient" model offers a third distribution channel in addition to our established medical and dental channels in the US. It is based on the concept of providing treatment predominantly to the large pool of US patients who cannot or do not want to use CPAP therapy as treatment for their chronic OSA condition.

SCA will set up treatment centres across the USA over the next few years, with first centres to open during the 2016/17 financial year. We believe that SCA will become a significant contributor to SomnoMed's business in the US in the next three years allowing us to increase the growth in device sales, revenues and profits substantially.

In May 2016 SomnoMed completed an accelerated pro-rata non-renounceable entitlement offer and raised approximately $10.3 million (after issue costs) to provide working capital and any capital investment associated with the "Direct To Patient" business. The issue very successful and was heavily oversubscribed.

Financial Results

The financial year 2015/16 finished with revenues of $44 million, which represented an increase of 28% over the previous year. MAS device revenues were $37.25 million (up 28.9%), with non-device revenues exceeding $6.8 million.

MAS revenues were 84.5% of the total revenues in 2015/16 (2014/15 84.0%) with non-device revenues now 15.5% of total revenues. Insurance contracts currently being negotiated by SomnoMed in the US, Holland and Germany continue to indicate a positive change in the reimbursement landscape in the treatment of obstructive sleep apnea with an oral appliance and this growing revenue segment should allow the company to generate margins and net income from non-device revenues in the years ahead.

SomnoMed increased its EBITDA by 70% from $870,000 in the previous year to $1.475 million (as adjusted) in 2015/16. This EBITDA was achieved after absorbing $625,000 in non-core expenditure. Of that $336,000 related to start-up and legal costs connected with the acquisition of S3 business model and establishment of SCA, as well as the recruitment of SCA's CEO. A further $204,000 was spent on expenditure associated with the search for and recruitment of SomnoMed's Global CEO. The underlying EBITDA in the financial year 2015/16 was therefore $2.1 million and 141% higher than in the previous year.

Gross margin generated on the sale of SomnoDent® devices during the financial year increased from 68% to 68.6%, demonstrating an ability to achieve a similar gross margin on mid-price products achieved on the signature-line of products. Volume increases and the impact of the use of digital technology in the financial year 2017 should allow the Company to maintain or improve on the gross margin achieved in 2015/16 despite the expected above average growth in sales of mid-price devices.

New processes and products in the pipeline

The SomnoMed development department produced good results during the financial year, some of which are detailed below.

Digital scanning of models was introduced in our global hubs to facilitate and speed up the production process, whereas physical models were previously shipped to our manufacturing facility, they are now digitally printed and used as a base for the production of our SomnoDent® devices. This reduces the turnaround time and eliminates freight costs.

A new tool, known as a SomGauge, was successfully developed and launched at the end of the financial year. The SomGauge makes it easier for practitioners to take impressions and bite records.

SomnoDent Alpha® has been developed and received FDA approval in September 2016. Alpha is an instant fit device, which can be fitted by professionals in medical practices and sleep clinics to provide a temporary device to the patient and deliver efficacy data of a COAT™ treatment relating to a specific patient before a device is custom made for the patient. SomnoDent Alpha® is expected to be launched in the US during the first half of the financial year 2016/17.

Further improvements were made to our SomnoDent Herbst Advance® device and towards the integration of DentiTrac® compliance control micro-recorders into our devices. In co-operation with European based consultants, progress is being made in the development of new proprietary materials.

The year ahead

Our guidance for 2016/17 is based on the budget for SomnoMed and the current roll out plan for SCA. SomnoMed's core business is expected to continue to grow in volume, revenues and profits. SCA is expected to open five centres before the end of the current financial year, start generating revenues and will incur start-up losses in the year before starting to contribute to the group's revenues and profits from 2017/18.

2016/17 Guidance	SomnoMed (Core)	SCA
Volume (MAS units)	> 70,000 (+20%)	> 1,000
Revenues	> $54m. (+23%)	> $2m.
EBITDA	$4m. (+171%)	($4m.)

Appointment of a Global CEO

In June 2012 I took over management control from the outgoing CEO, with a commitment to fill this position for three years until SomnoMed appointed a new global CEO to be based in the US. We appointed Spencer Stuart in New York to assist us in finding the right person, which led to the appointment of Mr. Derek Smith as CEO of SomnoMed from 1 September 2016.

Derek was born in the UK, where he studied Biochemistry. He started his career working for E-Merck in Europe, where he worked initially in research and then in sales. In 1985 Derek moved to the US, where he worked for Datex-Ohmeda and McKesson, until he joined Respironics, Inc. as President of the Respironics Hospital Group in 2005. After the acquisition of Respironics by Philips in 2008, Derek stayed with Philips and worked in senior leadership positions in several divisions, until he accepted our offer to join SomnoMed. Derek is based in Denver, Colorado and will manage SomnoMed's global business from there.

Over the last four years I was fortunate to be able to build the foundation for SomnoMed's future. During this time we broadened our product range, expanded into a number of new countries and clearly established our company as the leading medical device company offering an effective, more comfortable and more compliant treatment of obstructive sleep apnea. We also upgraded and expanded our management team during these years and improved the way we operate and communicate as a young, high growth global company with a significant future. It is most satisfying to see what has been achieved in these years and the way the market rewarded us increasing our company's market capitalisation by over 400%. I am most grateful to all members of the SomnoMed team around the world who have successfully implemented a vision and strategy for the development of SomnoMed.

I will remain with the company as non-executive Chairman and, together with my colleagues on the board, support Derek Smith in building on our foundation and taking SomnoMed to its next level. The increasing acceptance and adaptation of COAT™ around the world and the addition of SCA as a significant revenue and profit contributor gives the board great confidence in the future of SomnoMed.

Yours sincerely,

Dr Peter Neustadt
Executive Chairman and CEO

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of SomnoMed Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The names of directors in office at any time during or since the end of the year are:

Peter Neustadt

Robert Scherini

Lee Ausburn

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

Principal Activity

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

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

Operating Results

The profit of the Consolidated Entity amounted to $67,185 (2015: $533,761). A more detailed review of the operations is contained on pages 1 to 4 of the Annual Report, which accompanies this Directors' Report.

Dividends Paid or Recommended

There are no dividends paid, declared or recommended for the year ended 30 June 2016 (2015: Nil).

Significant Changes in State of Affairs

Other than as stated in the accompanying Chairman's Report and financial report, there were no significant changes in the state of affairs of the Company during the reporting year.

After Balance Date Events

The directors have not become aware of any matter or circumstance that has arisen since the end of the year to the date of this report that has significantly affected or may affect:

(i) The operations of the Company and the entities that it controls

(ii) The results of those operations

(iii) The state of affairs of the Company in subsequent years, other than:-

- The board of SomnoMed Limited appointed Mr. Derek Smith as new global CEO from 1 September 2016. Dr. Peter Neustadt has returned to his previous role of Non-Executive Chairman after transferring global executive responsibilities during the month of September 2016.
- A notification was received from the California Board of Equalization regarding the California audit assessment that they decided not to assess a tax liability towards SomnoMed. The audit will be changed to a No-Opinion Warranted Report.

Future Developments

The Company will continue to produce and sell devices for the oral treatment of sleep related disorders in Australia and overseas.

Directors

Peter Neustadt
Non-Executive Chairman, Member of the Audit Committee

Dr. Peter Neustadt, born in Germany, studied in Switzerland at St.Gall Graduate School for Business & Economics, where he earned a Master in Economics (lic.oec.HSG) and Doctorate in Business Administration (Dr.oec). He worked for McKinsey & Company based in Switzerland and in Mexico.

Dr Neustadt moved to Australia and joined Kerry Packer in 1980 as a member of the executive board of Consolidated Press Holdings. He was Executive Chairman and principal shareholder in diverse media group Communications & Entertainment Limited until 1987. He founded and managed resort and property group Cypress Lakes Group Limited and The Golden Door group of companies until the end of 2005. Dr Neustadt also served on the board of Channel Ten, Advance Bank, Trafalgar Properties Limited and Manboom Pty Ltd.

From February 2010 to August 2014 he chaired Australian financial services company and mortgage aggregator Vow Financial and negotiated the takeover of the company by Yellow Brick Road Limited. The transaction completed at the end of August 2014. He also serves as director on the board of private companies in Australia and in Europe.

Robert Scherini
Non-Executive Director, Chairman of the Audit Committee

Rob is a past Managing Director for Johnson & Johnson Medical Australia/NZ and has held senior management positions both locally and internationally. He was posted for a number of years in J&J's European headquarters in Brussels before returning to Australia where he was directly responsible for J&J's medical device business in Australia and New Zealand as well as responsibilities across the APAC region. He has a strong track record of growing businesses and brings to the Board a wealth of experience in Sales & Marketing, Business Development, Finance, Operations and Supply, Legal, Human Resources and Information Technology.

Rob has a bachelor's degree in Business and is a Certified Practising Accountant (CPA). He was a Member of the Board of the Medical Technology Association of Australia (MTAA) for nine years. He has been a strong advocate of Human Resources Strategy and was recognised as Best HR Champion at the 2004 Australian HR Awards. In 2007 was awarded a Rotary International Fellowship for his assistance to the community.

More recently Rob has devoted his time to consulting and mentoring. He is a senior advisor for a healthcare consultancy focused on Asia Pacific and a member of the Board of a large privately owned medical device company.

Lee Ausburn
Non-Executive Director, M.Pharm., B.Pharm., Dip.Hosp.Pharm. (University of Sydney), GAICD

Lee has had a long career in the health industry, beginning as a pharmacist before joining Merck and Co. Inc., a global pharmaceutical company. She progressed through a range of roles, beginning in marketing in Australia and was ultimately Vice President, Asia Merck & Co. Inc. responsible for the general management of Merck organisations and their products across Asia. During this time, Lee successfully built businesses in a number of countries, often from the very beginning, planned and launched new products, liaised with regulatory authorities and government agencies and was responsible for the management teams building Merck's business in that part of the world. After leaving Merck in 2008, she has taken on a number of non-executive director roles.

She is a non-executive director of Australian Pharmaceutical Industries (API) Ltd, which distributes pharmaceuticals to pharmacies across Australia. API also has retail pharmacy operations through Priceline stores. She is also a non-executive director of nib holdings ltd, a health insurer.

Lee is currently President of the Pharmacy Faculty Foundation, University of Sydney.

Company Secretary
Terence Flitcroft B Comm CA SF FIN

Terence has been Company Secretary since 1995.

Terence is a Chartered Accountant with broad commercial and financial experience and has acted as director and company secretary for a number of private and public companies.

Board Member's Directorships

Listed below are details of other listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date Appointed	Date Resigned
Peter Neustadt	No other listed public company directorship	-	-
Robert Scherini	No other listed public company directorship	-	-
Lee Ausburn	Australian Pharmaceutical Industries Ltd	7 October 2008	Current
	nib holdings ltd	13 November 2013	Current

Directors' Interests in Securities

As at the date of this report, details of Directors who hold shares or options in the Company for their own benefit or who have an interest in holdings through a third party are detailed below.

Director	Shares	Options over Ordinary Shares
Peter Neustadt *	2,806,705	500,000
Robert Scherini *	86,400	-
Lee Ausburn *	133,919	-

* Held by the Director or entities associated with the Director and in which the Director has a financial interest.

Meetings of Directors

The number of meetings of the Company's Board of Directors and each board committee held during the year to 30 June 2016 and the number of meetings attended by each director were:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Peter Neustadt	13	13	2	2	1	1
Robert Scherini	13	13	2	2	1	1
Lee Ausburn	13	13	-	-	1	1

Indemnifying Directors or Officers

Each Director has entered into a Deed with the Company under which the Director is given access to documentation and in addition is:

- indemnified by the Company to the full extent permitted by law against all liabilities sustained or incurred through acting as a Director (under the Corporations Act the indemnity does not extend to a liability owed to the Company or its related bodies corporate, or which arises out of conduct involving a lack of good faith, or is for a pecuniary penalty order under section 1317G of the Corporations Act or a compensation order under section 1317H of the Corporations Act);
- indemnified by the Company to the full extent permitted by law against legal costs and expenses incurred in defending an action for a liability incurred as an officer of the Company (under the Corporations Act the indemnity does not extend to costs incurred in circumstances where the Director is found to have a liability for which the Director cannot be indemnified, or costs of defending or resisting criminal proceedings in which the Director is found guilty or defending proceedings brought by ASIC or a liquidator for a court order where the court holds that the grounds for making the order are established, or costs of proceedings seeking relief for the Director under the Corporations Act where the court denies relief);
- entitled to a loan to meet the costs of defending or responding to any such claim or proceeding; and
- entitled to have the Company maintain and pay premiums in respect of directors' and officers' insurance. Premiums paid in respect of this insurance were $37,265.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of SomnoMed Limited support and have adhered to key principles of corporate governance.

Please refer to the Corporate Governance Statement of SomnoMed Limited on our website for more information http://aus.somnomed.com/investor-centre/corporate-governance.

Environmental regulations

The Company's operations are not materially affected by environmental regulations.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Options

At the date of this report the unissued ordinary shares of SomnoMed Limited under option are as follows:

Grant Dates	Date of Expiry	Exercise Price	Number under Option
2 December 2014	31 October 2017	$2.35	250,000
25 November 2015	31 October 2018	$2.64	250,000
5 May 2016	5 May 2017	$3.00	400,000
1 September 2016	31 August 2019	$3.39	200,000
			1,100,000

In addition to the above 1,100,000 options, a total of 4,116,500 shares issued by the Company pursuant to the Company's Executive Share and Option Plan have been treated as share based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. (refer Note 15 to the accompanying accounts).

No options were granted over unissued shares during or since the end of the financial year by the Company to directors or any of the specified officers as part of their remuneration, other than:

Option holder	Exercise price	Options
P Neustadt Holdings Pty Limited*	$2.64	250,000
Derek Smith**	$3.39	200,000
		450,000

* P Neustadt Holdings Pty Limited is a company associated with Dr Peter Neustadt.

** Appointed CEO effective 1st September 2016.

A total of 685,000 options have been exercised since the end of the last financial year.

No options expired or lapsed since the end of the previous financial year, which were not reported in the previous year's Directors' Report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of SomnoMed Limited and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of SomnoMed Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Consolidated Entity's financial results. The board of SomnoMed Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Consolidated Entity, as well as create goal congruence between directors, executives and shareholders.

The following table shows the gross revenue and results for the last five years for the listed entity, as well as the share price at the end of the respective financial years.

	2012	2013	2014	2015	2016
Revenue	$15,453,116	$18,581,690	$30,274,596	$34,437,903	$44,084,153
Net profit	$699,745	$704,675	$214,956	$533,761	$67,185
Share price at year end	$0.88	$0.91	$1.46	$2.65	$3.59
Earnings per share (cents)	1.28	1.39	0.95	1.26	0.34

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated Entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee, which currently is the entire board. All executives receive a total remuneration package, which may include a base salary (commensurate with their expertise and experience), superannuation, fringe benefits, options and performance incentives. The remuneration committee reviews executive packages annually by reference to the Consolidated Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured with each executive and is based predominantly on the forecast growth of the Company's financial performance and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee option arrangements.

Senior executives in Australia receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. However, to align directors' interests with shareholder interests, the directors may hold options in the Company.

Performance Based Remuneration

As part of senior executives' remuneration packages there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with executives. The measures are specifically tailored to the areas each executive is involved in and has a level of control over. The KPIs target areas the board believes will improve the performance of the Company, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, SomnoMed Limited bases the assessment on audited figures where appropriate.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy should be effective in increasing shareholder wealth over the medium term.

The board will review its remuneration policy annually to ensure it is effective.

Performance Income as a proportion of Total Remuneration

Senior executives are paid performance based bonuses based on a proportion of their total remuneration package. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and financial performance of the Consolidated Entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Except for the Chairman and CEO, all senior executives' remuneration for the year ended 30 June 2016 had a fixed component and a variable component of their overall remuneration, with the variable part of their remuneration paid subject to a performance condition.

Options issued as part of remuneration for the year ended 30 June 2016

During the year, options were issued to the Chairman and CEO as part of his remuneration. The options are not issued based on performance criteria, but are from time to time issued to directors and executives of SomnoMed Limited and its subsidiaries to increase long term goal congruence between executives, directors and shareholders.

Company Directors/ Executives	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price	Earliest Exercise Date	Last Exercise Date
P Neustadt Holdings Pty Limited *	250,000	25 November 2015	93.00 cents	$2.64	30 June 2016	31 October 2018

* Issued to P Neustadt Holdings Pty Limited is a company associated with Dr Peter Neustadt.

Employment Contracts of Directors and Senior Executives

The employment conditions of specified executives are formalised in contracts of employment or its wholly owned subsidiary, with the exception of the Chairman and CEO. All executives other than the Chairman and CEO are permanent employees of SomnoMed. No contract is for a fixed term. Each contract states it can be terminated by the Company by giving up to six months' notice and by paying a redundancy of between three to six months.

Directors' remuneration

The following table discloses the remuneration of Directors of the Company for the year ended 30 June 2016, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short-term Benefits		Post-Employment Benefits	Long-term Benefits		
Director	Salary & Fees $	Other $	Superannuation $	Termination Benefits $	Equity Settled Share Based Payment	Total $
Peter Neustadt (1)						
-2015	520,000	-	-	-	79,239	599,239
-2016	550,000	-	-	-	131,712	681,712
Robert Scherini						
- 2015	54,500	-	-	-	-	54,500
- 2016	58,625	-	-	-	-	58,625
Lee Ausburn (2)						
- 2015	54,500	-	-	-	-	54,500
- 2016	58,625	-	-	-	-	58,625
TOTAL 2015	**629,000**	**-**	**-**	**-**	**79,239**	**708,239**
TOTAL 2016	**667,250**	**-**	**-**	**-**	**131,712**	**798,962**

(1) Dr Neustadt is a director of Belgove Pty Limited, which received consultancy fees during this and the previous year.

(2) Ms Ausburn is a director of Leedoc Pty Limited, which received consultancy fees during the year.

(3) No Director receives any performance related remuneration.

Shareholdings

Number of shares held by Key Management Personnel, including shares held by associated entities

	Balance 1.7.15	Issued	Exercise of Options	Balance 30.6.16
Peter Neustadt	3,702,023	279,682	125,000	4,106,705
Lee Ausburn	73,999	9,920	50,000	133,919
Robert Scherini	80,000	6,400	-	86,400
Kien Nguyen(3)	700,000	135,000	200,000	1,035,000
Christopher Bedford (1)	325,000	63,800	-	388,800
Neil Verdal-Austin(2)	1,035,000	135,000	-	1,170,000
	5,916,022	629,802	375,000	6,920,824
Less shares issued under the Employee Share Trust Plan (1), (2) & (3)	(1,890,000)	(305,000)	(200,000)	(2,395,000)
	4,026,022	324,802	175,000	4,525,824

(1) 35,000 (2015: 50,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 27(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(2) 135,000 (2015: 150,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 27(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(3) 335,000 (2015: 400,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 27(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

Options and Rights Holdings

Number of options held by Key Management Personnel, including options held by associated entities

	Balance 1.7.15	Granted as Remuneration	Exercised or Lapsed/ Expired [(2)]	Balance 30.6.16	Total Vested 30.6.16	Total Exercisable	Total Un-exercisable
Peter Neustadt [(1)]	575,000	250,000	(125,000)	700,000	700,000	450,000	250,000
Robert Scherini	-	-	-	-	-	-	-
Lee Ausburn	50,000	-	(50,000)	-	-	-	-
Kien Nguyen	200,000	-	(200,000)	-	-	-	-
Martin Weiland	-	-	-	-	-	-	-
Total	825,000	250,000	(375,000)	700,000	700,000	450,000	250,000
Issued shares treated as options in these accounts (refer table above and Note 15)							
Kien Nguyen	700,000	135,000[(3)]	200,000	1,035,000	200,000	200,000	-
Neil Verdal-Austin	875,000	135,000[(3)]	-	1,010,000	575,000	575,000	-
Christopher Bedford	315,000	35,000[(3)]	-	350,000	225,000	225,000	-
Martin Weiland	225,000	75,000[(3)]	-	300,000	25,000	25,000	-
Total	2,940,000	630,000	(175,000)	3,395,000	1,725,000	1,475,000	250,000

(1) Held by Belgove Pty Limited or its nominee, a company associated with Dr Peter Neustadt.
250,000 options were issued to P Neustadt Holdings Pty Ltd on 25 November 2015, with an exercise price of $2.64 per share, each entitling the option holder to be issued with one new ordinary share. The options cannot be exercised before 30 June 2016 and expire on 31 October 2018. Fair value of these options calculated by using a Black and Scholes option pricing model was 93 cents per option.

(2) Includes 200,000 options issued to Dr Nguyen, which were exercised utilising funds advanced pursuant to the Company's Executive Share and Option Plan.

(3) The options were issued by the Company pursuant to the Company's Executive Share and Option Plan and have been treated as share based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. These options were issued on 31 October 2015 at an exercise price of $2.40 per share. These options expire on 31 October 2019 and are exercisable prior to that time, subject to vesting conditions being satisfied. Fair value of these options calculated by using a Black and Scholes option pricing model was $1.11 per option.

Loans to key management personnel

Details of loans to key management personnel are reflected in Note 27(d).

Executives' remuneration

The following table discloses the remuneration of the specified executives of the company and the Consolidated Entity for the year ended 30 June 2016, as specified for disclosure by AASB 124. The information in this table is audited.

	Short-term Benefits			Post-Employment Benefits	Long-term Benefits			
Executive	**Salary & Fees**	**Bonuses**	**Other**	**Superannuation**	**Long service leave**	**Share-based Payment (1)**	**Termination Benefits**	**Total**
Chris Bedford								
- 2015	180,000	-	-	19,096	8,362	6,010	-	213,468
- 2016	201,000	-	-	19,095	8,308	11,549	-	239,952
Neil Verdal-Austin								
- 2015	320,000	-	-	33,823	6,664	16,133	-	376,620
- 2016	330,000	-	-	31,350	10,365	30,193	-	401,908
Kien Nguyen								
- 2015	429,957	47,824	14,908	-	-	42,196	-	534,885
- 2016	506,502	-	35,025	-	-	45,082	-	586,609
Martin Weiland								
- 2015	287,811	-	19,320	-	-	11,335	-	318,466
- 2016	302,069	7,552	20,825	-	-	20,987	-	351,433
TOTAL 2015	**1,217,768**	**47,824**	**34,228**	**52,919**	**15,026**	**75,674**	**-**	**1,443,439**
TOTAL 2016	**1,339,571**	**7,552**	**55,850**	**50,445**	**18,673**	**107,811**	**-**	**1,579,902**

(1) The amounts disclosed are based on the assessed fair value at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date.

For the year ended 30 June 2016 the Company had four (2015 – four) persons employed who were deemed to be specified executives.

The key management personnel of the consolidated group comprise the directors and the specified executives.

Bonuses are awarded as part of the consolidated group's incentive scheme for the retention of key executives and are awarded as at year end. All bonuses have vested and the pre-requisites for the receipt of the award have been satisfied.

The terms and conditions relating to options granted as remuneration during the year to key management personnel are disclosed in Note 25.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Non-Executive Directors:						
Robert Scherini	100%	100%	0%	0%	0%	0%
Lee Ausburn	100%	100%	0%	0%	0%	0%
Executive Directors:						
Peter Neustadt	81%	87%	0%	0%	19%	13%
Other Key Management Personnel:						
Chris Bedford	95%	97%	0%	0%	5%	3%
Neil Verdal-Austin	92%	96%	0%	0%	8%	4%
Kien Nguyen	92%	83%	0%	9%	8%	8%
Martin Weiland	92%	96%	2%	0%	6%	4%

The proportion of the cash bonus paid/payable or forfeited is as follows:

	Cash bonus paid/payable		Cash bonus forfeited	
Name	**2016**	**2015**	**2016**	**2015**
Non-Executive Directors:				
Robert Scherini	0%	0%	0%	0%
Lee Ausburn	0%	0%	0%	0%
Executive Directors:				
Peter Neustadt	0%	0%	0%	0%
Other Key Management Personnel:				
Chris Bedford	0%	0%	0%	0%
Neil Verdal-Austin	0%	0%	0%	0%
Kien Nguyen	0%	100%	0%	0%
Martin Weiland	13%	0%	88%	0%

This concludes the Remuneration Report which has been audited.

Other Information

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees of $46,000 (2015: $64,000) for tax services were paid/payable to the external auditors during the year ended 30th June 2016.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30th June 2016 is set out on page 53 of this annual report.

Signed in accordance with a resolution of the Board of Directors pursuant to section 298(2)(a) of the *Corporations Act 2001.*

Peter Neustadt

Chairman

22 September 2016

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 $	2015 $
Revenue from sale of goods and services, net of discounts	5	44,084,153	34,437,903
Cost of sales		(18,741,061)	(14,945,647)
Gross margin		25,343,092	19,492,256
Sales and marketing expenses		(11,942,634)	(9,496,185)
Administrative expenses		(8,411,251)	(6,414,265)
Operating profit before corporate, research and business development expenses, other items of revenue and expenses and income tax		4,989,207	3,581,806
Corporate, research and business development expenses		(3,514,198)	(2,711,468)
Interest income	5	55,935	147,712
Net fair value gain on contingent consideration payable	29	436,508	782,445
Share based payments	25c	(337,397)	(199,802)
Depreciation and amortisation		(1,020,054)	(629,815)
Impairment of goodwill		-	(187,068)
Impairment of capitalised development costs		(49,843)	-
Interest expense		(10,723)	(19,073)
Unrealised foreign exchange loss		(58,663)	(66,744)
Profit before income tax	6	**490,772**	**697,993**
Income tax expense attributable to operating profit	7	(423,587)	(164,232)
Profit after income tax for the year		**67,185**	**533,761**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation difference for foreign operations		295,748	963,670
Other comprehensive income for the year, net of tax		295,748	963,670
Total comprehensive income for the year attributable to the owners of SomnoMed Limited		**362,933**	**1,497,431**
Profit for the period is attributable to:			
Owners of SomnoMed Limited		165,005	597,224
Non-controlling interest		(97,820)	(63,463)
		67,185	**533,761**
Total comprehensive income for the year attributable to:			
Owners of SomnoMed Limited		460,753	1,560,894
Non-controlling interest		(97,820)	(63,463)
		362,933	**1,497,431**
Basic earnings per share (cents per share)	23	0.34	1.26
Diluted earnings per share (cents per share)	23	0.32	1.20

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	NOTE	2016	2015
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	8	17,632,252	8,305,556
Trade and other receivables	9	7,847,165	7,179,634
Inventories	10	1,690,632	1,292,930
Total Current Assets		27,170,049	16,778,120
Non-Current Assets			
Property, plant and equipment	11	3,572,965	2,104,721
Intangible assets	12	6,621,921	5,881,225
Deferred tax asset	7c	3,062,237	2,986,551
Total Non-Current Assets		13,257,123	10,972,497
Total Assets		40,427,172	27,750,617
LIABILITIES			
Current Liabilities			
Trade and other payables	13	6,085,053	3,882,030
Provisions	14	936,820	803,068
Current tax liability		375,759	304,364
Contingent consideration payable	29	179,695	481,625
Total Current Liabilities		7,577,327	5,471,087
Non-Current Liabilities			
Trade and other payables	13	-	86,976
Provisions	14	161,217	106,622
Contingent consideration payable	29	-	577,950
Total Non-Current Liabilities		161,217	771,548
Total Liabilities		7,738,544	6,242,635
Net Assets		**32,688,628**	**21,507,982**
EQUITY			
Issued capital	15	44,552,216	33,705,941
Reserves	16	4,371,541	3,566,396
Accumulated losses		(15,795,652)	(15,932,383)
Equity attributable to owners of SomnoMed Limited		33,128,105	21,339,954
Non-controlling interests		(439,477)	168,028
Total Equity		**32,688,628**	**21,507,982**

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 July 2014	26,464,894	2,402,924	(16,529,607)	12,338,211	231,491	12,569,702
Profit after income tax expense for the year	-	-	597,224	597,224	(63,463)	533,761
Other comprehensive income for the year, net of tax	-	963,670	-	963,670	-	963,670
Total comprehensive income for the year	-	963,670	597,224	1,560,894	(63,463)	1,497,431
Transactions with owners in their capacity as owners:						
Shares issued during the period	7,430,906	-	-	7,430,906	-	7,430,906
Share issuance costs	(189,859)	-	-	(189,859)	-	(189,859)
Share option reserve on recognition of remuneration options	-	199,802	-	199,802	-	199,802
Balance at 30 June 2015	33,705,941	3,566,396	(15,932,383)	21,339,954	168,028	21,507,982

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 July 2015	33,705,941	3,566,396	(15,932,383)	21,339,954	168,028	21,507,982
Revaluation of employee retirement benefit	-	-	(28,274)	(28,274)	-	(28,274)
Profit after income tax expense for the year	-	-	165,005	165,005	(97,820)	67,185
Other comprehensive income for the year, net of tax	-	295,748	-	295,748	-	295,748
Total comprehensive income for the year	-	295,748	165,005	460,753	(97,820)	362,933
Transactions with owners in their capacity as owners:						
Shares issued during the period	11,265,712	-	-	11,265,712	-	11,265,712
Share issuance costs	(419,437)	-	-	(419,437)	-	(419,437)
Share option reserve on recognition of remuneration options	-	509,397	-	509,397	-	509,397
Acquisition (Note 20)	-	-	-	-	(509,685)	(509,685)
Balance at 30 June 2016	44,552,216	4,371,541	(15,795,652)	33,128,105	(439,477)	32,688,628

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		43,061,131	33,781,707
Payments to suppliers and employees (inclusive of GST)		(40,846,460)	(34,090,395)
Interest received		55,935	147,712
Interest paid		(10,723)	(19,073)
Income tax paid		(154,860)	(62,176)
Net cash inflow/(outflow) from operating activities	22	2,105,023	(242,225)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(1,225,752)	(186,770)
Payments for intangible assets		(99,120)	(143,290)
Payments for property, plant and equipment		(1,907,974)	(1,178,253)
Net cash outflow from investing activities		(3,232,846)	(1,508,313)
Cash flows from financing activities			
Proceeds from issue of shares		10,707,689	7,252,352
Share issuance costs		(247,437)	(189,859)
Net cash inflow from financing activities		10,460,252	7,062,493
Net increase in cash and cash equivalents		9,332,429	5,311,955
Cash at beginning of the financial year		8,305,556	2,944,888
Exchange rate adjustment		(5,733)	48,713
Cash at the end of the financial year	21	17,632,252	8,305,556

The cash balances at 30 June 2015 and 30 June 2016 are represented by cash at bank and cash equivalents.

The above statement should be read in conjunction with the consolidated notes.

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled and incorporated in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 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 as appropriate for profit oriented entities. 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 and the contingent consideration payables, 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.

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 judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Goodwill and other indefinite life intangible assets

The Consolidated Entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax

The Consolidated Entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity recognises liabilities for anticipated tax audit issues based on the Consolidated Entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

2. BASIS OF PREPARATION (continued)

d. Use of judgments and estimates (continued)

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Warranty provision

In determining the level of provision required for warranties the Consolidated Entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services. In the past the Company calculated the warranty provision as a percentage of sales. Beginning in FY2014, the provision is based on estimates made from historical warranty data associated with similar products and services as this approach is deemed to be more representative of the actual warranty claims.

Business combinations

Business combinations are initially accounted for on a provisional basis.

The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Consolidated Entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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 statement of profit or loss and other comprehensive income.

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 and services. Revenue from the sale of goods is recognised upon dispatch of goods to customers.

Other income

Other income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 transactions 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 statement of profit or loss and other comprehensive income.

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 does not currently hold, but held in previous years, 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 statement of profit or loss and other comprehensive income when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 rate, respective product populations and average costs of returns and repairs. Warranty periods on MAS devices are dependent on individual market and regulatory conditions in different countries.

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 statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income 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

Product development expenditure capitalized 5 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 statement of profit or loss and other comprehensive income of profit or loss 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 statement of profit or loss and other comprehensive income of profit or loss. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Impairment (continued)

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 statement of profit or loss and other comprehensive income 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 statement of profit or loss 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
Software	2 – 5 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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 statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Finance income and expense

Interest income is recognised as it accrues in the statement of profit or loss using 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 profit or 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. 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.

s. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

<u>AASB 9 Financial Instruments</u>

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

<u>AASB 15 Revenue from Contracts with Customers</u>

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 15 Revenue from Contracts with Customers (continued)

For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

t. New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

u. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

v. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Fair value measurement hierarchy

The Consolidated Entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

4. 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.

4. FINANCIAL RISK MANAGEMENT (continued)

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 profit or 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), Canadian dollars (CAD), Singapore dollars (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, CAD, EUR, CHF, SGD, JPY and Philippine Peso (PHP) and South Korean Won (KRW).

Over 92% (2015-90%) of the Consolidated Entity's revenues and over 86% (2015-85%) 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.

5. REVENUE	NOTE	2016 $	2015 $
Interest received		55,935	147,712
Revenue from sale of goods, net of discounts		44,084,153	34,437,903
		44,140,088	34,585,615

6. PROFIT FOR THE YEAR

Profit for the year is after charging:			
Operating lease rentals		905,876	800,900
Employee benefits expense		16,858,578	13,497,489
Depreciation		872,932	479,943
Amortisation of intellectual property		147,122	149,872
Research and development expenditure		732,519	645,921

7. INCOME TAX EXPENSE

a. The components of tax expense comprise:			
Current tax		423,587	303,050
Deferred tax	7d	-	(138,818)
		423,587	164,232
b. The prima facie tax on profit before income tax is reconciled to the income tax expense/(benefit) as follows:			
Prima facie income tax expense calculated using the Australian tax rate of 30% (2015: 30%)		147,232	209,398
(Increase)/decrease in income tax expense due to non-(deductible)/assessable and other items		276,355	(45,166)
Income tax expense/(benefit)		423,587	164,232
c. Deferred tax assets			
Recognised deferred tax assets			
Plant and equipment		(181,124)	(206,269)
Accruals		460,230	366,802
Provisions		71,104	70,150
Deferred revenue		818	44,808
Other			
Tax losses carried forward		2,711,209	2,711,060
Deferred tax assets		3,062,237	2,986,551

While the entity recorded trading losses in various segments the strategies implemented by management around growth and cost efficiencies has led management to believe the loss making segments should return to generating sufficient taxable profits and therefore recoup the tax losses being recognised.

d. Movement in temporary differences during the year			
Carrying amount at beginning of financial year		2,986,551	2,394,617
Recognised in the statement of profit or loss and other comprehensive income	7a	-	138,818
Foreign exchange adjustment		75,686	453,116
Carrying amount at end of financial year		3,062,237	2,986,551
e. Deferred tax assets not brought to account			
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 3(m) occur			
Tax losses		658,705	1,338,178
Temporary differences		743,084	378,506

7. INCOME TAX EXPENSE (continued)

Franking credits	2016 $	2015 $
Franking credits available for subsequent financial years based on a tax rate of 30%	33,447	33,447

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

8. CASH AND CASH EQUIVALENTS

Cash at bank and on deposit	17,632,252	8,305,556
	17,632,252	8,305,556

9. TRADE AND OTHER RECEIVABLES

Current

Trade receivables	6,181,721	5,380,149
Less provision for impairment	(122,238)	(80,965)
	6,059,483	5,299,184
Other receivables	1,787,682	1,880,450
	7,847,165	7,179,634

10. INVENTORIES

Raw materials and consumables	1,690,632	1,292,930

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment -at cost	7,733,553	5,372,246
Accumulated depreciation	(4,160,588)	(3,267,525)
	3,572,965	2,104,721
Movements in the carrying amounts of plant and equipment during the current financial year:		
Balance at the beginning of the year	2,104,721	1,250,524
Additions	2,369,326	1,111,820
Disposals	(8,019)	(9,141)
Depreciation expense	(872,932)	(479,943)
Effect of movements in foreign exchange	(20,131)	231,461
Carrying amount at the end of the year	3,572,965	2,104,721

Included in property, plant and equipment are capitalised lease incentives of $456,260 (2015: $441,354). Lease incentives are recognised as an asset and a liability in the financial statements and amortised over the term of the lease.

12. INTANGIBLE ASSETS	NOTE	2016 $	2015 $
Patents and trademarks – at cost		911,459	748,911
Accumulated amortisation		(642,975)	(592,597)
		268,484	156,314
Product development expenditure capitalised		462,944	497,169
Accumulated amortisation		(347,038)	(248,872)
		115,906	248,297
Goodwill		6,237,531	5,476,614
		6,621,921	5,881,225

Movements in patents and trademarks

Balance at beginning of year	156,314	90,014
Additions	160,538	118,969
Amortisation expense	(48,958)	(52,669)
Foreign currency translation difference	590	-
Balance at end of year	268,484	156,314

Movements in product development expenditure capitalised

Balance at beginning of year	248,297	312,396
Additions	15,616	33,104
Amortisation expense	(98,164)	(97,203)
Impairment*	(49,843)	
Balance at end of year	115,906	248,297

* During the year, management undertook a review of certain commercial indicators with regards to further impairment and determined that the remaining value in relation to certain development costs capitalised was to be further impaired by $49,843.

Movements in goodwill

Balance at beginning of year	5,476,614	5,689,979
Goodwill arising on the acquisition of Strong Dental, Inc. (Note 19(b))	295,256	-
Goodwill arising on the acquisition of 50% holding in SMH Biomaterial AG (Note 20)	311,159	-
Impairment of goodwill (SomnoMed France)	-	(187,068)
Foreign currency translation difference	154,502	(26,297)
Balance at end of year	6,237,531	5,476,614

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

Goodwill is allocated to cash generating units, which are based on the Group's geographic reporting segments.

Asia Pacific Segment	486,159	175,000
European Segment	5,466,296	5,301,614
North American Segment	285,076	-
	6,237,531	5,476,614

12. INTANGIBLE ASSETS (continued)

Impairment Test

The recoverable amount of the Consolidated Entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5 year projection period approved by management.

European division

Based on the above, the recoverable amount of the European division exceeded the carrying amount by $43,588,000.

The European cash generating unit (CGU) has a revenue growth per annum range of between 8% (2015: 14%) and 40% (2015: 41%) due to the differing stages of development these various markets are in. More established markets are experiencing lower growth rates than those in their infancy and considered to still be developing when it comes to Sleep Disordered Breathing treatment. The average growth of total costs per annum ranges between 10% (2015: 12%) and 22% (2015: 16%) due to the differing costs of business in different European markets. A similar range (10-11%) (2015: 8-10%) is seen for the average growth of operating costs per annum. The average discount rate used was 6% (2015: 6%) which is the 1-5 year business loan rate used in the European region. Based on the above, no impairment has been applied as the carrying amount of goodwill didn't exceed its recoverable amount for the European business segment.

Asia Pacific Division

Goodwill due to acquisition of intangible assets in South Korea is $175,000, representing 3 per cent of total goodwill at 30 June 2016. The growth of revenue and expenses is expected to be 58% (2015: 55%) and 28% (2015: 33%) per annum with a discount rate of 16% (2015: 16%) applied in the valuation. The growth of revenue and expenses varies due to the stage of development the market is in. The recoverable amount of SomnoMed Korea exceeded the carrying amount by $350,000. The impairment test indicated that no impairments were required.

North America Division

Goodwill due to acquisition in SomnoMed Canada Inc. is $295,256, representing 5 per cent of total goodwill at 30 June 2016. The growth of revenue and expenses is expected to be 36% and 21% per annum with a discount rate of 16% applied in the valuation. The growth of revenue and expenses varies due to the stage of development the market is in. The recoverable amount of SomnoMed Canada Inc. exceeded the carrying amount by $850,000. The impairment test indicated that no impairments were required.

Sensitivity

(a) Revenue would need to decrease by 10-64% (2015: 8-56%) for different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase by 15-180% (2015: 10-125%) for the different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

The following key assumptions were used for each CGU in the year of 2016:

	Decrease in revenue	**Increase in discount rate**
SomnoMed Germany GmbH	53%	144%
SomnoMed Nordic AB	36%	179%
Goedegebuure Slaaptechniek BV	38%	78%
SomnoMed France	14%	21%
SMH Biomaterial AG	64%	-
SomnoMed Korea	10%	15%
SomnoMed Canada	14%	30%

13. TRADE AND OTHER PAYABLES	**2016**	**2015**
	$	**$**
CURRENT		
Trade payables, other payables and accruals	6,065,330	3,708,230
Income received in advance	17,233	63,711
Deferred rent	2,490	110,089
	6,085,053	3,882,030
NON CURRENT		
Other payables	-	86,976

14. PROVISIONS

CURRENT		
Warranty	200,381	167,455
Lease make good	67,212	67,212
Employee entitlements	669,227	568,401
	936,820	803,068

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months	126,828	135,477
NON CURRENT		
Employee entitlements	161,217	106,622

Movements in Provisions **2016**	**Warranty**	**Lease make good**	**Employee entitlement**
	$	**$**	**$**
Balance at the beginning of the year	167,455	67,212	675,023
Additional provisions recognised	31,982	-	677,677
Amounts used	(3,202)	-	(531,638)
Effect of movement in foreign exchange	4,146	-	9,382
Balance at end of year	200,381	67,212	830,444

15. ISSUED CAPITAL	**2016** **$**	**2015** **$**
Issued and fully paid ordinary shares		
56,712,981 (2015: 50,935,600) ordinary shares		
Balance of issued capital at the beginning of year	38,101,311	28,457,504
Shares issued during period:		
- 112,694 pursuant to acquisition of subsidiary at $2.676 on 31 July 2015	301,569	-
- 37,779 pursuant to acquisition of subsidiary at $2.51 on 31 July 2015	94,899	-
- 838,000 pursuant to issue of shares at $2.40 on 13 October 2015	2,011,200	-
- 18,125 pursuant to exercise of options at 87 cents on 30 October 2015	43,500	-
- 18,125 pursuant to exercise of options at 87 cents on 30 October 2015	43,500	-
- 45,313 pursuant to exercise of options at 87 cents on 30 October 2015	108,750	-
- 10,000 pursuant to exercise of options at 87 cents on 30 October 2015	8,700	-
- 50,000 pursuant to exercise of options at 87 cents on 30 October 2015	43,500	-
- 200,000 pursuant to exercise of options at 92 cents on 30 October 2015	184,000	-
- 40,000 pursuant to issue of shares at $2.40 on 6 November 2015	96,000	-
- 12,454 pursuant to acquisition of subsidiary at $2.6065 on 14 January 2016	32,461	-
- 50,159 pursuant to acquisition of subsidiary at $2.5737 on 28 April 2016	129,094	-
- 1,613,983 pursuant to issue of shares at $2.50 on 16 May 2016	4,034,958	-
- 2,587,312 pursuant to issue of shares at $2.50 on 16 May 2016	6,468,280	-
- 64,386 pursuant to exercise of options at $1.49715 cents on 21 July 2014	-	96,396
- 3,430,000 pursuant to placement at $1.50 on 8 August 2014	-	5,145,000
- 1,000,000 pursuant to share purchase plan at $1.50 on 22 August 2014	-	1,500,000
- 1,139,000 pursuant to issue of shares at $2.09 on 21 October 2014	-	2,380,510
- 270,000 pursuant to pursuant to placement at $1.50 on 3 December 2014	-	405,000
- 60,000 pursuant to exercise of options at 87 cents on 19 December 2014	-	52,200
- 50,000 pursuant to issue of shares at $2.70 on 23 January 2015	-	135,000
- 35,000 pursuant to exercise of options at 87 cents on 24 February 2015	-	30,450
- 30,834 pursuant to issue of shares at $2.89 on 6 May 2015	-	89,110
Less issue costs	(419,436)	(189,859)
Balance of issued capital at end of year	51,282,286	38,101,311
Less shares issued but not recorded in accounts		
- 25,000 shares issued at 60 cents	(15,000)	(15,000)
- 125,000 shares issued at 80 cents	(100,000)	(100,000)
- 150,000 shares issued at 79 cents	(118,500)	(118,500)
- 150,000 shares issued at $1.24	(186,000)	(186,000)
- 182,500 shares issued at 58 cents	(105,850)	(105,850)
- 60,000 shares issued at 99 cents	(59,400)	(59,400)
- 942,000 shares issued at $1.18	(1,111,560)	(1,111,560)
- 125,000 shares issued at $1.03	(128,750)	(128,750)
- 40,000 shares issued at $1.37	(54,800)	(54,800)
- 1,139,000 shares issued at $2.09	(2,380,510)	(2,380,510)
- 50,000 shares issued at $2.70	(135,000)	(135,000)
- 838,000 shares issued at $2.40	(2,011,200)	-
- 40,000 shares issued at $2.40	(96,000)	-
- 50,000 shares issued at $0.87	(43,500)	-
- 200,000 shares issued at $0.92	(184,000)	-
Total advances to executives to acquire shares in the Company	(6,730,070)	(4,395,370)
Issued share capital recorded in the Company accounts	44,552,216	33,705,941

15. ISSUED CAPITAL (continued)

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

At 30 June 2016 there were 4,816,500 (2015: 3,923,500) unissued ordinary shares for which options were outstanding (including 4,116,500 (2015: 2,988,500) issued ordinary shares which are treated as options in these accounts).

Capital Risk Management

The Consolidated Entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Consolidated Entity may issue new shares, return capital to shareholders, sell assets or commence the payment of dividends to shareholders.

16. RESERVES	**2016**	**2015**
	$	**$**
Share based payment reserve	2,505,660	1,996,263
Foreign currency translation reserve	1,837,708	1,541,960
Capital reserve	28,173	28,173
	4,371,541	3,566,396

The share based payment reserve records the fair value of share based payments as remuneration.

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

The capital reserve records profits which will be distributed back to investors in SMH Biomaterial AG, an entity which SomnoMed Ltd owns 100% (2015: 50%).

17. REMUNERATION OF AUDITORS

Remuneration of BDO East Coast Partnership (Australia):		
- Auditing or reviewing the financial report	88,000	82,000
- Other services (taxation)	13,000	6,000
Remuneration of other auditors (paid to BDONetwork firms)		
- Auditing or reviewing the financial reports of subsidiaries	219,000	98,000
- Other services (taxation)	33,000	58,000
Total auditors' remuneration included in operating result	353,000	244,000

18. SEGMENT OPERATIONS

Primary Reporting – Business Segments

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

The Consolidated 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 Consolidated Entity is managed primarily on the basis of geographical segments and the operating segments are therefore determined on the same basis.

SomnoMed's operations during the period related to the production and sale of products treating sleep disordered breathing, which is the only business segment.

18. SEGMENT OPERATIONS (continued)

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 Consolidated Entity.

Unallocated items

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

-derivatives and foreign exchange gains and losses;

-interest and other income;

-corporate, research and development expenses;

-income tax expense; and

-amortisation of intangible assets.

Secondary Reporting – Geographical Segments

Geographic location:	**Asia Pacific**	**North America**	**Europe**	**Total**
2016	**$**	**$**	**$**	**$**
External sales revenue	**3,881,654**	**19,571,641**	**20,630,858**	**44,084,153**
Segment profit before interest and tax	227,260	1,178,916	3,010,563	4,416,739
Unallocated expense items				(3,971,179)
Interest received				55,935
Interest paid				(10,723)
Profit before tax				**490,772**
Income tax expense				(423,587)
Profit after tax				**67,185**

Geographic location:	**Asia Pacific**	**North America**	**Europe**	**Total**
2015	**$**	**$**	**$**	**$**
External sales revenue	**3,445,499**	**14,534,636**	**16,457,768**	**34,437,903**
Segment profit before interest and tax	575,034	1,253,249	1,631,483	3,459,766
Unallocated expense items				(2,890,412)
Interest received				147,712
Interest paid				(19,073)
Profit before tax				**697,993**
Income tax expense				(164,232)
Profit after tax				**533,761**

19. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES

(a) Details of controlled entities are reflected below

Company	Country of Incorporation	Interest % 2016	Interest % 2015
SomnoMed Limited	Australia		
Entities controlled by SomnoMed Limited			
SomCentre Pty Limited	Australia	100%	100%
SomnoMed, Inc.	USA	100%	100%
SomnoDent Pty Limited	Australia	100%	100%
SomnoMed Pte Ltd	Singapore	100%	100%
SomnoMed AG	Switzerland	100%	100%
SomnoMed Corporation Japan	Japan	100%	100%
SomnoMed Nordic AB	Sweden	100%	100%
SomnoMed Philippines Inc.	Philippines	100%	100%
SomnoMed Netherlands BV	Netherlands	100%	100%
SomnoMed France	France	92.9%	92.9%
Goedegebuure Slaaptechniek BV	Netherlands	87.5%	75%
SomnoMed Germany GmbH	Germany	100%	100%
SomnoMed Service GmbH[1]	Germany	100%	-
SMH Biomaterial AG [2]	Switzerland	100%	50%
SomnoMed Korea	South Korea	100%	100%
SomnoMed UK Limited	UK	100%	100%
SomnoMed Spain SL	Spain	100%	100%
SomnoMed Italy S.r.L	Italy	100%	100%
SomnoMed Canada Inc. [3]	Canada	100%	-
SomnoMed Taiwan Limited Company [4]	Taiwan	100%	-
Sleep Centres America Inc. [5]	USA	81.9%	-
SomnoMed Finance, Inc. [6]	USA	100%	-

[1] Incorporated on 25th April 2016
[2] Refer Note 20 on SMH Biomaterial AG acquisition
[3] Incorporated on 11th August 2015
[4] Incorporated on 9th December 2015
[5] Incorporated on 18th April 2016
[6] Incorporated on 31st May 2016

(b) Acquisition of Strong Dental Inc.

SomnoMed Canada Inc., a fully owned subsidiary of SomnoMed Limited, acquired the entire business of Strong Dental in Canada effective as at 2 November 2015 to be able to enter Canadian market, access customer footprint and sales channel and begin operations in Canadian market. Strong Dental is a technical dental laboratory producing and distributing oral appliances into Canada and USA. The purchase was satisfied by way of a cash payment of 445,000 Canadian dollars (A$478,494).

Purchase Consideration	**CAD**	**AUD**
Total consideration paid in cash	445,000	478,494
Less: Fair value of net identifiable assets	(170,412)	(183,238)
Goodwill (at date of acquisition)	274,588	295,256

The goodwill which arose on acquisition of Strong Dental included manufacturing knowledge and market knowledge.

Net Identifiable Assets acquired

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

	CAD	**AUD**
Inventory	65,578	70,514
Property, plant and equipment	360,022	387,120
Total assets acquired	425,600	457,634
Less: other payables	(255,188)	(274,396)
Net identifiable assets acquired	170,412	183,238

The acquiree's carrying amounts equal to fair values. Acquisition costs of CAD 25,000 (A$26,882) were expensed during the financial year.

19. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES (continued)

(c) Acquisition of OrthoSleep 19 GmbH

As part of the acquisition agreement entered in July 2013 between SomnoMed Limited and OrthoSleep 19 GmbH SomnoMed paid A$98,889 (EUR64,066.50) and issued SomnoMed Limited shares to the value of A$94,825 (EUR64,007) in July 2015 for the 3rd and final tranche of this acquisition.

(d) Acquisition of Goedegebuure Slaaptechniek BV

As part of the acquisition agreement entered in January 2012 between SomnoMed Limited and Goedegebuure Slaaptechniek BV (GS), SomnoMed paid $129,094 (EUR 86,880) and issued SomnoMed Limited shares of $129,094 (EUR 86,880) in April 2016 based on the value of an additional 12.5% interest acquired in the current year.

(e) Acquisition of MAS Nordic

Pursuant to acquiring the MAS Nordic business in January 2013 and subject to the performance of SomnoMed's business in the Nordic region, 12,454 SomnoMed shares were issued at the price of A$2.6065 to the value of A$32,461 in January 2016 as part of this acquisition agreement.

20. ACQUISITION OF NON-CONTROLLING INTEREST

SomnoMed Limited reached an agreement with the remaining shareholder in its subsidiary SMH Biomaterial AG, Mr. Konrad Hofmann, to acquire the outstanding 50% holding in the company on 31st July 2015. The purchase price for the 50% holding in SMH Biomaterial AG amounts to 540,000 EUR (A$820,844). SomnoMed Limited paid 340,000 EUR (A$519,275) in cash and 200,000 EUR (A$301,569) in SomnoMed Limited shares, which were issued at the weighted average market price of the shares during the three months prior to completion.

Purchase Consideration	**EUR**	**AUD**
Cash paid to vendors	340,000	519,275
Issue of shares in SomnoMed Limited	200,000	301,569
Total consideration paid	540,000	820,844
Less: non-controlling interests	(348,854)	(509,685)
Goodwill (at date of acquisition)	191,146	311,159

21. RECONCILIATION OF CASH	**2016** **$**	**2015** **$**
Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash at bank and on deposit and money market securities	17,632,252	8,305,556
	17,635,252	8,305,556

22. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**2016 $**	**2015 $**
Profit after income tax	67,185	533,761
Share and option expense	337,397	199,802
Impairment of goodwill	-	187,068
Impairment of capitalised development costs	49,843	-
Net exchange differences	58,663	66,744
Depreciation and amortisation	1,020,054	629,815
Change in operating assets and liabilities		
Increase in inventories	(385,100)	(187,355)
Increase in receivables and other receivables	(736,406)	(1,144,089)
Increase/(decrease) in payables and other payables	1,476,709	(720,839)
Increase in provisions	205,658	331,684
Decrease/(increase) in deferred tax assets	11,020	(138,816)
Net cash outflow from operating activities	2,105,023	(242,225)

23. EARNINGS PER SHARE

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

	2016	**2015**
Profit after income tax attributable to owners of SomnoMed Limited used in calculating basic and diluted earnings per share	$165,005	$597,224
Basic profit per share (cents per share)	0.34	1.26
Diluted profit per share (cents per share)	0.32	1.20
Weighted average number of shares used in the calculation of diluted earnings per share	52,184,031	49,931,255
Weighted average number of shares used in the calculation of basic earnings per share	48,623,946	47,217,180
Shares on issue at year end per accounts	52,596,481	47,947,100
Number of options on issue at year end – each option is exercisable at between $1.23 and $2.64 per share and converts to one ordinary share	700,000	935,000

24. CAPITAL AND LEASING COMMITMENTS	**2016 $**	**2015 $**
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	790,168	753,160
— later than 1 year but not later than 5 years	2,768,683	1,210,576
— later than 5 years	1,942,433	-
	5,501,284	1,963,736

Included in the operating lease commitments are non-cancellable property leases with terms of between one year and six years with, in some cases, options to extend (between three and five years). The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

25. SHARE BASED PAYMENTS

(a) Movements in the number of share options held by employees are:

	2016 #	2015 #
Opening balance	3,298,500	2,279,500
Exercised during the year	(60,000)	(45,000)
Shares issued and treated as options in these accounts (refer Note 15)	1,128,000	1,189,000
Shares issued and treated as options in previous accounts now treated as shares (refer Note 15)	(250,000)	(100,000)
Lapsed during the year	-	(25,000)
Closing Balance	4,116,500	3,298,500

(b) Details of employee share options as at end of year:

Options granted to employees hold no voting or dividend rights and are not transferrable.

Grant Date	Expiry and Exercise Date	Exercise Price	2016 #	2015 #
21 November 2012	5 November 2014 5 November 2015	$0.92	-	200,000
26 October 2012	1 October 2014 31 October 2015	$0.87	-	110,000
Shares treated as options in accounts (refer Note 15)			4,116,500	2,988,500
			4,116,500	3,298,500

(c) Options

The options and shares issued under the Employee Share and Option plan outstanding at 30 June 2016 had a weighted average exercise price of $2.13 (2015: $1.35) and a weighted average remaining contractual life of 1.41 years (2015: 1.09 years). Exercise prices range from $1.23 to $2.64 in respect of options outstanding at 30 June 2016 (2015: $0.87 to $2.35 range).

The weighted average fair value of the options granted during the year was $1.07 (2015: $0.9094).

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

	2016	2015
Weighted average exercise price	$2.4532	$2.1564
Weighted average life of the option	3.77 year	4.537 years
Underlying share price between	$2.67-$2.74	$2.09-$2.70
Expected share price volatility	45.00	45.00
Risk free interest rate	2.50%	2.75%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

Exercisability of the options has been considered when determining the fair value of the options.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under share and option expense in the statement of profit or loss and other comprehensive income is $337,397 (2015: $199,802), that relates, in full, to equity-settled share-based payment transactions.

25. SHARE BASED PAYMENTS (continued)

(d) Shareholdings and Options and Rights Holdings held by Key Management Personnel, including options held in associated entities.

Please refer to the pages 10 to 15 of the Remuneration Report.

(e) Share based payments

There were no other share-based payment arrangements in the year to 30 June 2016, other than shares and options issued to directors and executives pursuant to the Company's Executive Share and Option Plan as detailed in the Remuneration Report.

26. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the directors have not become aware of any matter that has significantly affected or may significantly affect the operations of the company in subsequent financial years other than as set out below.

a) The board of SomnoMed Limited appointed Mr. Derek Smith as new global CEO from 1 September 2016. Dr. Peter Neustadt has returned to his previous role of Non-Executive Chairman after transferring global executive responsibilities during the month of September 2016.
b) A notification was received from the California Board of Equalization regarding the California audit assessment that they decided not to assess a tax liability towards SomnoMed. The audit will be changed to a No-Opinion Warranted Report.

27. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

(a) Controlled entities

Interests in controlled entities are disclosed in Note 19. The Company engages in transactions with its controlled entities, which are in ordinary course of business at arm's length on a transfer pricing basis.

	2016 $	2015 $
The aggregate amount included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
Royalties	4,310,203	2,125,343
Revenue from provision of services	779,888	534,628
Interest income	550,507	428,908
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current receivables	28,383,871	20,599,122
Less impairment	(3,608,810)	(2,073,737)
	24,775,061	18,525,385

(b) Director related entities

During the year consultancy fees of $550,000 (2015: $520,000) were paid/are payable to Belgove Pty Limited, a company associated with Dr Neustadt and consultancy fees of $58,625 (2015: $54,500) were paid to Leedoc Pty Limited, a company associated with Ms Ausburn (as per Director's remuneration).

(c) Transactions in securities of the Company

During the year directors or entities related to directors acquired under normal commercial terms shares or options in the Company as detailed in Note 25. Directors acquired these shares or options through the public offering, direct issue or on-market purchase.

27. RELATED PARTY DISCLOSURES (continued)

	2016 $	2015 $
(d) Loans to key management personnel		
Balance beginning of the year	570,500	570,500
Loans advanced	-	-
Loans repaid	-	-
Interest charged – advance	-	-
Interest received	-	-
Balance end of the year	570,500	570,500
The highest amount of indebtedness during the reporting period for each key management personnel who received the loans:		
Neil Verdal-Austin	375,500	375,500
Christopher Bedford	195,000	195,000

Non-recourse advances to executives to acquire shares issued in the Company are not recorded in the Company's accounts and these shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards (Note 3(r)). The total of such loans is reflected in Note 15. These loans are repayable the earlier of two years from the provision of the advances and the date the borrower ceases to be the legal owner of the shares.

28. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions held of Consolidated Entity and Company Key Management Personnel in office at any time during the financial year are:

Key Management Person	
Peter Neustadt	Executive Chairman and CEO
Lee Ausburn	Director — Non-Executive
Robert Scherini	Director — Non-Executive
Kien Nguyen	President SomnoMed, Inc.
Neil Verdal-Austin	Chief Financial Officer and Executive Vice President Asia Pacific
Christopher Bedford	Vice President – Global Production and Product Development
Martin Weiland	Executive Vice President – Sales and Marketing Europe

(b) Compensation Practices and Key Management Personnel Compensation

Details of compensation practices and key management personnel compensation are disclosed in the Directors' Report, which accompanies these financial statements.

Details of management personnel compensation shares and options are disclosed in Note 25.

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Consolidated Entity is set out below:

	2016 $	2015 $
Short-term employee benefits	2,070,223	1,928,820
Post-employment benefits	50,445	52,919
Other	18,673	15,026
Share-based payments	239,523	154,913
	2,378,864	2,151,678

29. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2016 $	2015 $
Cash and equivalents	17,632,252	8,305,556
Trade receivables	6,059,483	5,299,184
Other receivables - current	962,749	1,175,017
	24,654,484	14,779,757

The maximum exposure to credit risk for trade and related party receivables at the reporting date by geographic region was:

North America	2,480,139	2,102,970
Europe	3,102,462	2,784,769
Asia Pacific	476,882	411,445
	6,059,483	5,299,184

Impairment Losses

The ageing of the trade receivables at the reporting date was:

Gross receivables		
Past due 0 – 30	5,432,676	4,910,882
Past due 31 – 60	256,501	148,134
Past due 60 – 90	139,208	266,186
Past due 90 days and over	353,336	54,947
	6,181,721	5,380,149
Impairment	(122,238)	(80,965)
Trade receivables net of impairment loss	6,059,483	5,299,184

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Balance at 1 July	(80,965)	(148,283)
Impairment movement	(37,524)	79,929
Exchange effect	(3,749)	(12,611)
Balance at 30 June	(122,238)	(80,965)

Impairment losses recognised in the year relate to significant individual customers, which have been assessed as impaired under the Consolidated Entity’s accounting policy as detailed in Note 3(h).

Based upon past experience, the Consolidated Entity believes that no impairment allowance other than as provided in these accounts is necessary in respect of trade receivables not past due.

The allowance accounts used in respect of trade receivables are used to record impairment losses unless the Consolidated Entity is satisfied that non recovery of the amount owing is possible; at that point, the amount considered non-recoverable is written off against the financial asset directly.

29. FINANCIAL INSTRUMENTS (continued)

Currency Risk

Consolidated Entity's exposure to foreign currency risk was as follows, based upon notional amounts:

Amounts local currency	KRW	GBP	PHP	JPY	USD	EUR	CHF	SEK	CAD	NOK
2016										
Cash and cash equivalents	15,036	21,010	54,216	31,058	5,543,240	4,164,973	-	357,752	51,206	100,355
Trade receivables	31,239	-	-	56,550	2,380,041	3,102,462	-	-	100,098	-
Trade payables	(2,816)	-	(580,885)	(33,481)	(752,858)	(1,567,926)	-	-	(19,076)	-
Gross balance sheet exposure	**43,459**	**21,010**	**(526,669)**	**54,127**	**7,170,423**	**5,699,509**	**-**	**357,752**	**132,228**	**100,355**

Amounts local currency	KRW	GBP	PHP	JPY	USD	EUR	CHF	SEK	CAD	NOK
2015										
Cash and cash equivalents	76,324	5,193	79,265	39,209	1,262,210	2,767,369	12,372	232,267	-	-
Trade receivables	17,036	-	-	43,453	2,102,970	2,783,424	-	-	-	-
Trade payables	(1,693)	-	(255,328)	(15,316)	(515,280)	(1,317,477)	-	-	-	-
Gross balance sheet exposure	**91,667**	**5,193**	**(176,063)**	**67,346**	**2,849,900**	**4,233,316**	**12,372**	**232,267**	**-**	**-**

The following significant exchange rates applied to the Consolidated Entity during the year:

	Average Rate		Reporting date spot rate	
AUD = 1	2016	2015	2016	2015
USD	0.7305	0.8364	0.7452	0.7707
EUR	0.6621	0.6949	0.6713	0.6921
JPY	85.26	95.50	76.92	94.40
PHP	34.11	37.18	35.13	34.76
KRW	853.64	899.05	858.69	861.86
CAD	0.9696	-	0.9632	-

Interest Rate Risk

Profile

At the reporting date, the interest rate profile of the Consolidated Entity's interest bearing financial instruments was:

Carrying amount	**2016**	**2015**
Variable rate instruments	**$**	**$**
Financial assets	3,945,880	3,124,829

The following are the contractual maturities of the Consolidated Entity's financial assets and liabilities including estimated interest payments.

2016	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	0.72%	17,632,252	17,632,252	-	-
Receivables	-	7,022,232	7,022,232	-	-
Payables	-	(4,749,485)	(4,749,485)	-	-
Total	-	19,904,999	19,904,999	-	-
2015	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1.99%	8,305,556	8,305,556	-	-
Receivables	-	6,474,201	6,474,201	-	-
Payables	-	(3,021,112)	(2,934,136)	(86,976)	-
Total	-	11,758,645	11,845,621	(86,976)	-

29. FINANCIAL INSTRUMENTS (continued)

Fair Values

The fair values of financial assets and liabilities, together with carrying amounts in the balance sheet are as follows:

	2016		2015	
	$		$	
Consolidated	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and equivalents	17,632,252	17,632,252	8,305,556	8,305,556
Trade and other receivables - current	7,022,232	7,022,232	6,474,201	6,474,201
Trade and other payables - current	(4,749,485)	(4,749,485)	(2,934,136)	(2,934,136)
Trade and other payables - non current	-	-	(86,976)	(86,976)
Contingent consideration payable – current	(179,695)	(179,695)	(481,625)	(481,625)
Contingent consideration payable – non current	-	-	(577,950)	(577,950)
Total	19,725,304	19,725,304	10,699,070	10,699,070

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Non-derivative financial assets and liabilities

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity.

Fair value hierarchy

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

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

	Level 3	Total
30 June 2016		
Financial liabilities		
- Contingent consideration payable	179,695	176,695
30 June 2015		
Financial liabilities		
- Contingent consideration payable	1,059,575	1,059,575

There are no other financial instruments carried at fair value or valued using the above criteria.

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Contingent consideration is fair valued at each reporting date with the fair value changes being recognised in profit or loss and based on an assessment of budgets and forecasts there was a resulting fair value gain of $436,508.

Valuation techniques for fair value measurements categorised within level 3.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The fair value of contingent consideration payable in relation to the Goedegebuure Slaaptechniek B.V. acquisition is based on an assessment of budgets and forecasts resulting in the fair value for the remaining 12.5% acquisition of the business.

29. FINANCIAL INSTRUMENTS (continued)

	2016	2015
Contingent consideration payable	**$**	**$**
Balance at beginning of year	1,059,575	2,230,642
Amount paid	(453,642)	(371,010)
Net fair value gain	(436,508)	(782,445)
Foreign currency translation difference	10,270	(17,612)
Balance at end of year	179,695	1,059,575

During the year payments were made to acquire additional ownership percentages in Orthosleep 19 and Goedegebuure Slaaptechniek B.V. Cash payments in the amount of $229,723 and non-cash issuance of shares of $223,919 occurred during the year.

Sensitivity Analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term however, permanent changes in foreign exchange and interest rates will have an impact on the result.

For the year ended 30 June 2016, it is estimated that a general increase of one percent in interest rates would have increased the Consolidated Entity's profit after income tax and equity by approximately $94,000 and for the year ended 30 June 2015 the effect would have been to increase the Consolidated Entity's profit after income tax and equity by approximately $89,000. A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's profit for the year ended 30 June 2016, and decreased the Consolidated Entity's equity by approximately $335,000. For the year ended 30 June 2015 the effect would have been to increase the Consolidated Entity's profit and increase the equity by $210,000.

It is estimated that a general decrease of ten percent in the value of the AUD against other foreign currencies would have increased the Consolidated Entity's profit for the year ended 30 June 2016, and increased the Consolidated Entity's equity by approximately $410,000. For the year ended 30 June 2015 the effect would have been to increase the Consolidated Entity's profit and increase the equity by $256,000.

30. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2016, the parent company was SomnoMed Limited, which has adopted the accounting policies consistent with those of the Consolidated Entity.

Result of the parent entity	**2016**	**2015**
	$	**$**
Net profit	1,039,200	1,379,422
Other comprehensive income/(loss)	-	-
Total comprehensive income	**1,039,200**	**1,379,422**
Financial position of the parent entity at year end		
Current assets	8,117,698	4,661,532
Total assets	37,400,280	24,813,816
Current liabilities	799,450	607,858
Total liabilities	799,450	607,858
Total equity of the parent entity comprising of:		
Issued capital	44,552,216	33,705,941
Share option reserve	2,505,660	1,996,263
Accumulated losses	(10,457,046)	(11,496,246)
Total Equity	**36,600,830**	**24,205,958**

Parent entity contingencies

There are no contingent liabilities or future commitments in respect to the Parent Entity.

SOMNOMED LIMITED
ACN 003255221
DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Dr Peter Neustadt
Chairman

22 September 2016

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Somnomed Limited

Report on the Financial Report

We have audited the accompanying financial report of Somnomed Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Opinion

In our opinion:

(a) the financial report of Somnomed Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Somnomed Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

Grant Saxon
Partner

Sydney, 22 September 2016

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

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

As lead auditor of Somnomed Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Saxon
Partner

BDO East Coast Partnership

Sydney, 22 September 2016

ADDITIONAL INFORMATION

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of Holding)	Shareholders	Shares
1-1,000	742	280,047
1,001-5,000	661	1,616,621
5,001-10,000	185	1,361,085
10,001-100,000	264	6,590,382
100,001 and over	48	47,064,846
	1,900	**56,912,981**

b. The number of shareholdings held in less than marketable parcels is 255

c. The names of the substantial shareholders listed in the holding company’s register as at 14 September 2016 are:

Shareholder	**Number of Ordinary Shares**	**Percentage**
TDM Asset Management Pty Ltd & Associates	5,454,666	9.62%
Dottie Investments Pty Ltd	4,647,002	8.17%
National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust	3,280,420	5.76%
FIL Limited & Associates	2,863,471	5.05%

d. **Voting Rights**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. **20 Largest Shareholders — Ordinary Shares as at 14 September 2016**

	Name	No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	HSBC Custody Nominees (Australia) Limited	11,126,628	19.550%
2.	National Nominees Limited	8,196,495	14.402%
3.	Dottie Investments Pty Ltd	4,647,002	8.165%
4.	Trinity Management Pty Ltd	3,230,400	5.676%
5.	J P Morgan Nominees Australia Limited	2,528,251	4.442%
6.	Belgove Pty Ltd	2,275,705	3.999%
7.	Golden Words Pty Ltd	1,653,424	2.905%
8.	Ginga Pty Ltd	1,510,223	2.654%
9.	Timbina Pty Ltd <Timbina Super A/C>	1,081,876	1.901%
10.	Citicorp Nominees Pty Ltd <Colonial First State Inv A/C>	771,779	1.356%
11.	Mirrabooka Investments Limited	748,832	1.316%
12.	Citicorp Nominees Pty Ltd	727,442	1.278%
13.	R E M Medical Pty Ltd <Cocoon Super Fund A/C>	655,394	1.152%
14.	Bond Street Custodians Limited <Laman – D05019 A/C>	641,601	1.127%
15.	Gaffwick Pty Ltd	578,940	1.017%
16.	P Neustadt Holdings Pty Ltd <Belgove Super Fund A/C>	531,000	0.933%
17.	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	361,393	0.635%
18.	Thirty Sixth Vilmar Pty Ltd	356,560	0.627%
19.	Tunend Pty Ltd	335,500	0.589%
20.	Clanricarde Investments Pty Ltd	317,756	0.558%
		42,276,201	**74.282%**

CORPORATE DIRECTORY

Registered Office and Principal Place of Business
Level 3
20 Clarke St Crows Nest 2065
Telephone: (02) 9467 0400

Directors

Peter Neustadt	Non-executive Chairman
Lee Ausburn	Non-executive Director
Robert Scherini	Non-executive Director

Chief Executive Officer
Derek Smith

Chief Financial Officer
Neil Verdal-Austin

Company Secretary
Terence Flitcroft

Patent Attorneys
Spruson & Ferguson

Banker
Westpac Banking Corporation

Auditors
BDO East Cost Partnership

Share Registry
Boardroom Pty Limited
SYDNEY NSW 2000
(GPO Box 3993 Sydney NSW 2001)
Telephone (02) 9290 9600
Facsimile (02) 9279 0664
wwwboardroomlimited.com.au

Company Website
www.somnomed.com.au

Stock exchange listing
SomnoMed Limited shares are listed on the Australian Securities Exchange (ASX code: SOM)