



CHAIRMAN'S ADDRESS

Delivered at Annual General Meeting 24th November 2016

The 2015/16 financial year was another successful year for our company. Our revenues grew by 29% to \$44 million and 59,000 devices were sold during the year. Direct sales for the year grew by 22.6%, whilst sales through North American licensees dropped by 47%.

SomnoMed recorded excellent growth in North American direct sales, which were up by 27.7%. In Europe unit growth accelerated, with 20.6% year on year, whilst APAC and Japan recorded growth of 6.5% in unit sales.

Our underlying EBITDA increased by 140% to \$2.1 million before \$625,000 in expenses relating primarily to start-up and legal costs connected with the acquisition of the Simple Sleep Services, LLC (“S3”) business model and establishment of SCA and expenses relating to the recruitment of SCA’s CEO and SomnoMed’s new global CEO.

During the year we concluded the acquisition of Strong Dental, which is now fully integrated and operating as SomnoMed Canada, and we acquired the 50% of SMH Biomaterial AG, which was held by our German partner.

The most important events of 2015/16, however, were the conclusion of the transaction to obtain exclusive worldwide license (excluding the State of Texas) from S3 to roll out and operate S3’s successful “Direct to Patient” model and the formation of Sleep Centres America, Inc. to roll out this concept. Sleep Centres America, Inc. has now changed its name to Renew Sleep Solutions, Inc. (“RSS”).

A capital raising to increase the Company’s working capital and fund the roll out of RSS was successfully completed in May 2016, with the issue of 4.2 million shares at a price of \$2.50, raising a total of \$10.3 million, after issue costs.

In July 2016 the Board of your Company announced the appointment of Mr. Derek Smith as our new global CEO. This came after a one year recruitment process in conjunction with US firm Spencer Stuart. Derek has an impressive business record in senior management positions, predominantly in the areas of sales and marketing and general management. In the last ten years Derek worked for Respironics and Philips. Derek, his wife Kelly and grown up children are based in Colorado. Derek has taken over from me in September this year, and the Board and I personally are very much looking forward to working closely with him to build on the foundation, which has been laid over a number of years.

The market has, once again, reacted positively to our strategy and achievements. The price of our shares increased during the financial year from \$2.63 at the end of the previous financial year to \$3.59 on the 30 June this year, a growth of 36.6% in the value of SomnoMed shares. During the 2016 financial year the market capitalisation of the Company increased by 52%.

At the end of the financial year SomnoMed employed over 350 people. Over 200 of those employees are working in our factory and less than 150 people are running our business in a total of 27 countries.

Since the beginning of the 2016/17 financial year, we are pleased with the following developments:-

- A management team has been appointed for RSS, which is on track to open its first outlet at the beginning of 2017.
- SomnoMed has now successfully treated more than 300,000 patients worldwide, thus creating an impeccable medical history of utilising our leading state-of-the-art and clinically proven medical oral appliance therapy for obstructive sleep apnea (“OSA”).
- The newly developed and patented SomnoDent[®] Alpha test device received 510k FDA approval and is now being used in selected hospitals, which require an efficacy test for oral appliance treatment, especially for severe patients.

The Board and management of SomnoMed are looking confidently into the future. We believe that the adaptation of COAT[™] as a more comfortable, medically effective and less expensive treatment of OSA than CPAP, is continuously gaining support and will deliver to our Company excellent growth for years to come. We also believe that our new US entity RSS will be able to establish an additional distribution channel treating CPAP rejecters and non-compliant patients, allowing SomnoMed North America to grow its business substantially in the future.

I would like to take this opportunity to thank you, our shareholders, my colleagues on the Board of SomnoMed and our management and staff around the world for the support I received over the last four years managing our Company. It was a privilege serving as CEO of SomnoMed. I am looking forward to continue serving as Chairman of SomnoMed in the future.