

SOMNOMED LIMITED

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Appendix 4D and Half-Year Financial Report

31 December 2017

This half-year report is for the six months ended 31 December 2017. The previous corresponding period is the half-year ended 31 December 2016.

The information in this report should be read in conjunction with the most recent annual financial report.

Results for announcement to the market

Revenues from sale of goods and services, net of discounts	Up	\$7,787,429 32.7%	to	\$31,573,940
Revenues from ordinary activities	Up	\$7,763,684 32.5%	to	\$31,619,569
Operating profit/(loss) before corporate and business development expenses, non-cash items and income tax	Down	(\$3,404,265) (140%)	to	(\$976,117)
Loss from ordinary activities after tax attributable to members	Down	(\$5,019,789)	to	(\$5,620,376)
Net loss for the period attributable to members	Down	(\$5,019,789)	to	(\$5,620,376)
Dividends		Amount per security		Franked amount per security
Final dividend		- ¢		- ¢
Interim dividend		- ¢		- ¢
Record date for determining entitlements to the dividend		Not applicable		
Brief explanation of any of the figures reported above: Refer to comments in the attached Directors' Report.				
NTA Backing		31 December 2017		31 December 2016
Net tangible asset backing per share		29.37 cents		40.07 cents

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity consisting of Somnomed Limited and the entities it controlled ("the consolidated entity") for the half-year ended 31 December 2017.

Directors

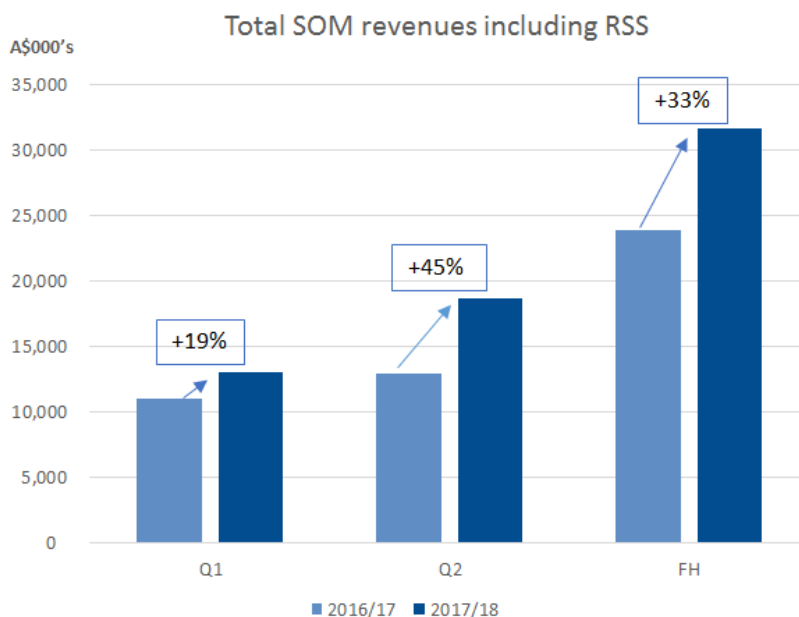
The names of directors who held office during or since the end of the half-year:

- Peter Neustadt
- Lee Ausburn
- Robert Scherini

Review of operations

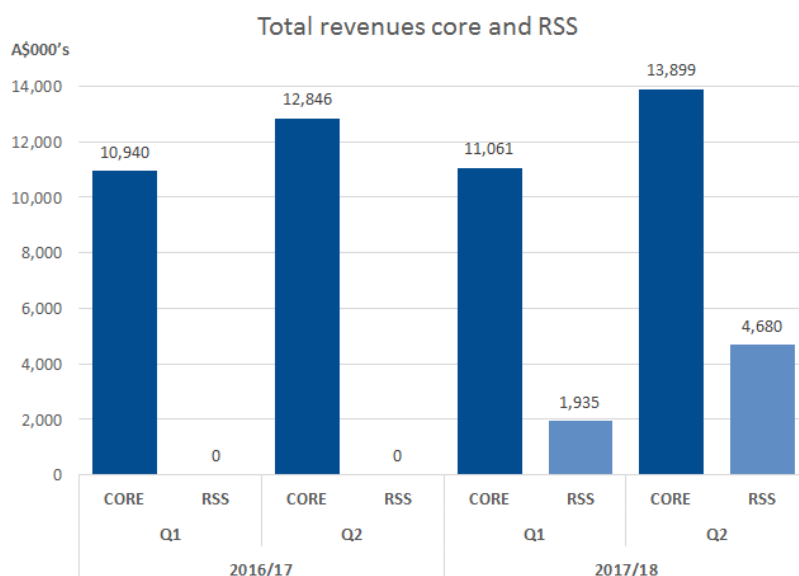
After a strong 2nd quarter with revenue growth of 45%, global group revenues for the first half of the financial year were \$31 million, showing growth of 33% on the same period last year. This revenue growth was driven by the North American Business, which showed 48% revenue growth in the first half and Europe, which posted 25% revenue growth. APAC was stable and flat but now only represents 6% of group revenues.

In North America the revenue growth of 48% was driven by the RSS business, which is gaining momentum due to some of the earlier RSS centres now reaching early maturity. Following the opening of five further RSS centres during the first half of the financial year, RSS had opened twelve centres as at 31st December. We expect that RSS will continue to add to the growth rate of our US business substantially and contribute to the overall increase in the adoption of COAT™ adding to the already successful traditional sales channels. It is our intention to continue the RSS rollout and open between ten and twelve centres during calendar 2018.



Whilst the RSS business continued to grow rapidly during the first half, our core business in the US slowed and its revenues declined compared to the previous year. The first quarter in the financial year was slower than planned in the US however that was much improved in the second quarter. Total revenues for the combined North American business increased by 75% during the second quarter compared with the same period in the previous year. Some customers remain apprehensive about a possible channel conflict between their own practices and RSS whereas others are not concerned at all as this concept broadens the overall adoption of COAT™ and increases the patient flow for all from this channel. We remain steadfast in our belief that the RSS opportunity and its advertising campaign will grow awareness and acceptance of COAT™ for all practitioners and once this becomes clearer this disturbance will stabilize. We have also made changes in our sales and marketing operations to better respond to adverse reactions and lend even greater support to our loyal network of sleep dentists across the United States.

Review of operations (cont.)



Revenue growth of 25% was posted in Europe, which reflected the ongoing and accelerating growth in sales volume in Europe where the adoption and acceptance of COAT™ over the less compliant CPAP continues to gain momentum. Europe continued its strong performance during the first half of the financial year. Growth accelerated in both quarters driven by the more mature markets in Benelux and Nordic countries and also emerging markets, such as France. All indications are positive that more and more countries in Europe are on their way to adopt COAT™ as a reimbursed alternative to CPAP and allow our company to grow significantly for some time to come.

The APAC region is still dominated by Australia, which is a non-reimbursed OSA market. While results in the first half were flat it is expected that a return to modest single digit growth in the second half is possible.

SomnoMed's core business generated an EBITDA of \$1m in the first half of the financial year 2017/18, excluding the investments made in RSS. RSS posted an EBITDA loss of \$4.4m in the first half, thus delivering a group EBITDA loss of \$3.4m. The RSS loss was greater than expected due to the slower than expected start up trajectory in the first six to nine months of a centre's operation and the fact that RSS had to invest in building in-house "revenue cycle management" capabilities sooner than expected. However, our Company is very encouraged by the performance of the first four centres which have now been in operation between 9-12 months. These centres have now posted some months of breakeven results and are now starting to contribute positively to the overall company results. This underlying fundamental profitability demonstrated by the early centres confirms our expectations about the fundamentals of the business and its future profit potential.

The gross margin on SomnoDent® MAS devices sold globally during the first half year was 70%, compared to 69.3% in the previous half year period, whilst the group gross margin, which includes RSS and other income, rose from 57.6% to 60%.

At the beginning of the second half of the financial year, strong growth rates are continuing within the core business. This, together with our activities in the US, managed care and very positive movements in many countries in Europe, allow the Company to look with great confidence into the future. In addition to this RSS will continue to open and operate further centres contributing to the volume and revenue growth of the group during this period and will be instrumental in the growth for 2018/19 and beyond.

As a result of the recent changes in the US Company Taxation Legislation, the taxation charge through the income statement was increased by \$1.7m. Although this has no cash nor additional taxation to pay, the effect is a significant one off as mentioned in Note 9. The loss after income tax expense for the half year would have been \$4.8m had this not been required and posted.

Principal Activity

The principal activity of the Consolidated Entity during the half year was the commercialisation of the SomnoDent[®] MAS for sleep related disorders and the "Direct to Patient" treatment channel through Renew Sleep Solutions centres in North America.

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

Operating Results

The net loss before income tax expense for the half year ended 31 December 2017 was \$4,615,543 (2016: net loss of \$372,048). The net loss of the Consolidated Entity amounted to \$6,529,916 (2016: net loss of \$802,324).

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

Other than as stated above and in the accompanying financial report, there were no significant changes in the state of affairs of the Consolidated Entity during the reporting period.

After Balance Date Events

The directors are not aware of any matter or circumstance that has arisen since the end of the half 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 Consolidated Entity in subsequent years; with the exception of the following:

On 19 February 2018 SomnoMed Limited announced an accelerated pro-rata Entitlement Offer to raise approximately \$10.4m. The funds raised from the Entitlement Offer will be utilised to provide working capital for the continued expansion of the Renew Sleep Solutions business.

Future Developments

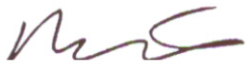
The Consolidated Entity will continue to produce and sell devices for the oral treatment of sleep related disorders in Australia and overseas.

SomnoMed Limited
Directors' Report
31st December 2017

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2017 is set out on page 20 of these half yearly accounts.

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

A handwritten signature in dark ink, appearing to read 'Peter Neustadt', is positioned above the printed name.

Peter Neustadt (Chairman)
Dated this 19th February 2018

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General information

The financial report covers SomnoMed Limited as a consolidated entity consisting of SomnoMed Limited and the entities it controlled during the period. The financial report is presented in Australian dollars, which is SomnoMed Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

SomnoMed Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

*Registered office and
principal place of business in Australia*

Level 3
20 Clarke Street
Crows Nest NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 19th February 2018.

SomnoMed Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31st December 2017

	Note	31.12.17 \$	31.12.16 \$
Revenue from sale of goods and services, net of discounts	2	31,573,940	23,786,511
Cost of sales		(12,558,387)	(10,078,000)
Gross margin		19,015,553	13,708,511
Sales and marketing expenses		(11,449,279)	(5,763,978)
Administrative expenses		(8,542,391)	(5,516,385)
Operating (loss)/profit before corporate, research and business development expenses, non-cash items and income tax		(976,117)	2,428,148
Corporate, research and business development expenses		(2,432,753)	(1,963,441)
Depreciation and amortization		(736,108)	(571,519)
Share and option expense		(331,129)	(276,761)
Interest income		45,629	69,374
Loss on disposal of fixed assets		-	(6,059)
Net fair value loss on contingent consideration payable		(51,095)	(32,708)
Unrealised foreign exchange loss		(100,766)	(1,857)
Interest expense		(33,204)	(17,225)
Loss before income tax expense		(4,615,543)	(372,048)
Income tax expense	9	(1,914,373)	(430,276)
Loss after income tax expense for the half year		(6,529,916)	(802,324)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		373,328	(8,502)
Other comprehensive income for the half-year, net of tax		373,328	(8,502)
Total comprehensive income for the half-year		(6,156,588)	(810,826)
Loss for the half-year is attributable to:			
Owners of SomnoMed Limited		(5,620,376)	(600,587)
Non-controlling interest		(909,540)	(201,737)
		(6,529,916)	(802,324)
Total comprehensive income for the half-year is attributable to:			
Owners of SomnoMed Limited		(5,247,048)	(609,089)
Non-controlling interest		(909,540)	(201,737)
		(6,156,588)	(810,826)
Basic earnings per share (cents)		(10.33)	(1.13)
Diluted earnings per share (cents)		(10.33)	(1.13)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

SomnoMed Limited
Consolidated Statement of Financial Position
As at 31st December 2017

	Note	31.12.17 \$	30.06.17 \$
ASSETS			
Current Assets			
Cash and cash equivalents		7,578,486	14,210,321
Trade and other receivables		13,204,549	10,196,708
Inventories		1,925,768	1,947,565
Total Current Assets		<u>22,708,803</u>	<u>26,354,594</u>
Non-Current Assets			
Trade and other receivables		393,072	264,738
Property, plant and equipment		5,708,164	4,491,423
Intangible assets	7	6,897,144	6,632,530
Deferred tax asset		1,732,637	3,468,762
Total Non-Current Assets		<u>14,731,017</u>	<u>14,857,453</u>
Total Assets		<u>37,439,820</u>	<u>41,212,047</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		7,986,756	7,882,837
Lease liabilities	8	261,824	69,295
Provisions		1,915,463	1,547,355
Current tax liability		460,898	449,665
Total Current Liabilities		<u>10,624,941</u>	<u>9,949,152</u>
Non-Current Liabilities			
Lease liabilities	8	675,535	53,250
Provisions		255,837	254,839
Total Non-Current Liabilities		<u>931,372</u>	<u>308,089</u>
Total Liabilities		<u>11,556,313</u>	<u>10,257,241</u>
Net Assets		<u>25,883,507</u>	<u>30,954,806</u>
EQUITY			
Issued capital	4	47,691,520	46,937,360
Reserves		5,120,363	4,415,906
Accumulated losses		(24,759,906)	(19,139,530)
Equity attributable to owners of SomnoMed Limited		<u>28,051,977</u>	<u>32,213,736</u>
Non-controlling interests		(2,168,470)	(1,258,930)
Total Equity		<u>25,883,507</u>	<u>30,954,806</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

SomnoMed Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2017

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	46,937,360	4,415,906	(19,139,530)	32,213,736	(1,258,930)	30,954,806
Loss after income tax expense for the half-year	-	-	(5,620,376)	(5,620,376)	(909,540)	(6,529,916)
Other comprehensive income for the half-year, net of tax	-	373,328	-	373,328	-	373,328
Total comprehensive income for the half-year	46,937,360	4,789,234	(24,759,906)	26,966,688	(2,168,470)	24,798,218
<i>Transactions with owners in their capacity as owners:</i>	-	-	-	-	-	-
Shares issued during the period	808,041	-	-	808,041	-	808,041
Share issuance costs	(53,881)	-	-	(53,881)	-	(53,881)
Share option reserve on recognition of remuneration options	-	331,129	-	331,129	-	331,129
Balance at 31 December 2017	47,691,520	5,120,363	(24,759,906)	28,051,977	(2,168,470)	25,883,507

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	44,552,216	4,371,541	(15,795,652)	33,128,105	(439,477)	32,688,628
Loss after income tax expense for the half-year	-	-	(600,587)	(600,587)	(201,737)	(802,324)
Other comprehensive income for the half-year, net of tax	-	(8,502)	-	(8,502)	-	(8,502)
Total comprehensive income for the half-year	-	(8,502)	(600,587)	(609,089)	(201,737)	(810,826)
<i>Transactions with owners in their capacity as owners:</i>	-	-	-	-	-	-
Shares issued during the period	1,136,383	-	-	1,136,383	-	1,136,383
Share issuance costs	(50,886)	-	-	(50,886)	-	(50,886)
Share option reserve on recognition of remuneration options	-	276,761	-	276,761	-	276,761
Balance at 31 December 2016	45,637,713	4,639,800	(16,396,239)	33,881,274	(641,214)	33,240,060

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

SomnoMed Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2017

	31.12.17	31.12.16
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	28,328,619	22,559,255
Payments to suppliers and employees (inclusive of GST)	(34,589,364)	(22,733,922)
Interest received	34,038	69,374
Interest paid	(16,286)	(17,249)
Income tax paid	(175,738)	(820,634)
	<hr/>	<hr/>
Net cash outflow from operating activities	(6,418,731)	(943,176)
Cash flows from investing activities		
Final payment of contingent consideration	(25,547)	-
Payments for intangible assets	(100,883)	(209,779)
Payments for property, plant and equipment	(871,957)	(922,363)
	<hr/>	<hr/>
Net cash outflow from investing activities	(998,387)	(1,132,142)
Cash flows from financing activities		
Payment of finance lease	(26,888)	-
Proceeds from exercise of share options	587,500	246,000
Proceeds from issue of shares	195,900	839,497
	<hr/>	<hr/>
Net cash inflow from financing activities	756,512	1,085,497
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(6,660,606)	(989,821)
Cash at beginning of period	14,210,321	17,632,252
Effects of exchange rate changes on cash and cash equivalents	28,771	70,449
Cash at end of period	7,578,486	16,712,880
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The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

	Consolidated	
Note 2. Revenue and other income	31.12.17	31.12.16
	\$	\$
Operating activities		
Revenue from sale of goods and services, net of discounts	31,573,940	23,786,511
Interest income	45,629	69,374
Total Revenue and other income	<u>31,619,569</u>	<u>23,855,885</u>

Note 3. Dividends

No dividends were paid during or subsequent to the half year ended 31st December 2017.

SomnoMed Limited
Notes to the financial statements
31 December 2017

Note 4. Share capital	31.12.17	30.06.17
	\$	\$
Issued and fully paid ordinary shares		
58,749,011 (30 June 2017: 57,867,419) ordinary shares		
Balance of issued capital at the beginning of period	54,572,473	51,282,286
Shares issued during period:		
- 6,592 pursuant to acquisition of subsidiary at \$3.738158 on 12 September 2017	24,642	-
- 250,000 pursuant to exercise of options at \$2.35 on 4 October 2017	587,500	-
- 625,000 pursuant to issue of shares at \$3.61 on 4 October 2017	2,256,250	-
- 200,000 pursuant to exercise of options at \$1.23 on 25 August 2016	-	246,000
- 526,500 pursuant to issue of shares at \$3.44 on 31 October 2016	-	1,811,160
- 27,938 pursuant to acquisition of subsidiary at \$3.738158 on 3 January 2017	-	104,437
- 400,000 pursuant to exercise of options at \$3.00 on 4 May 2017	-	1,200,000
Less issue costs	(53,881)	(71,410)
Balance of issued capital at end of period	<u>57,386,984</u>	<u>54,572,473</u>
Less shares issued but not recorded in accounts		
- 890,334 shares issued at \$1.18	(1,050,594)	(1,062,393)
- 125,000 shares issued at \$1.03	-	(128,750)
- 15,000 shares issued at \$1.37	(20,550)	(20,550)
- 1,119,000 shares issued at \$2.09	(2,338,710)	(2,370,060)
- 50,000 shares issued at \$2.70	(135,000)	(135,000)
- 838,000 shares issued at \$2.40	(2,011,200)	(2,011,200)
- 30,000 shares issued at \$2.40	(72,000)	(96,000)
- 526,500 shares issued at \$3.44	(1,811,160)	(1,811,160)
- 625,000 shares issued at \$3.61	(2,256,250)	-
Total advances to executives to acquire shares in the Company	<u>(9,695,464)</u>	<u>(7,635,113)</u>
Issued share capital recorded in the Company accounts	<u>47,691,520</u>	<u>46,937,360</u>

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 31 December 2017 there were 5,318,834 (30 June 2017: 4,803,834) unissued ordinary shares for which options were outstanding (including 4,093,834 (30 June 2017: 3,628,834) issued ordinary shares which are treated as options in these accounts).

Note 5. Segment Information

Segment Information

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.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the 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 income;
- corporate and business development expenses;
- income tax expense; and
- amortisation of intangible assets.

Information about reportable segments

Geographical location:	Asia Pacific	North America	North America (RSS Component)	Europe	Total
2017	\$	\$	\$	\$	\$
External sales revenue	2,058,444	8,698,277	6,614,655	14,202,564	31,573,940
Segment net profit/(loss) before tax	76,437	671,464	(4,598,016)	2,093,510	(1,756,605)
Unallocated expense items					(2,871,363)
Interest income					45,629
Interest expense					(33,204)
Loss before tax					(4,615,543)
Income tax expense					(1,914,373)
Loss after tax					(6,529,916)

Geographical location:	Asia Pacific	North America	North America (RSS Component)	Europe	Total
2016	\$	\$		\$	\$
External sales revenue	2,069,359	10,351,996	-	11,365,156	23,786,511
Segment net profit/(loss) before tax	87,249	1,537,000	(969,067)	1,332,750	1,987,932
Unallocated expense items					(2,412,129)
Interest income					69,374
Interest expense					(17,225)
Loss before tax					(372,048)
Income tax expense					(430,276)
Loss after tax					(802,324)

SomnoMed Limited
Notes to the financial statements
31 December 2017

Note 6. Non-controlling interests

	31.12.17	30.06.17
	\$	\$
Reconciliation		
Balance at beginning of reporting period	(1,258,930)	(439,477)
Loss after income tax	(909,540)	(819,453)
Balance at end of reporting period	<u>(2,168,470)</u>	<u>(1,258,930)</u>

NCI breakdown by entity

SomnoMed France	(449,562)	(424,084)
Renew Sleep Solutions	(1,718,908)	(834,846)
Balance at end of reporting period	<u>(2,168,470)</u>	<u>(1,258,930)</u>

Note 7. Intangible assets

Patents and trademarks – at cost	1,212,895	1,098,302
Accumulated amortisation	(728,431)	(688,114)
	<u>484,464</u>	<u>410,188</u>
Product development expenditure capitalised	462,944	462,944
Accumulated amortisation	(418,449)	(411,262)
	<u>44,495</u>	<u>51,682</u>
Goodwill	6,368,185	6,170,660
	<u>6,897,144</u>	<u>6,632,530</u>

Movements in patents and trademarks

Balance at beginning of reporting period	410,188	268,484
Additions	100,891	184,323
Amortisation expense	(35,929)	(44,916)
Foreign currency translation difference	9,314	2,297
Balance at end of reporting period	<u>484,464</u>	<u>410,188</u>

Movements in product development expenditure capitalised

Balance at beginning of reporting period	51,682	115,906
Amortisation expense	(7,187)	(64,224)
Balance at end of reporting period	<u>44,495</u>	<u>51,682</u>

SomnoMed Limited
Notes to the financial statements
31 December 2017

Note 7. Intangible assets (continued) **31.12.17**
\$ **30.06.17**
\$

Movements in goodwill

Balance at beginning of reporting period	6,170,660	6,237,531
Impairment of goodwill SomnoMed Korea	-	(40,000)
Foreign currency translation difference	197,525	(26,871)
Balance at end of reporting period	6,368,185	6,170,660

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expenses 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	135,000	135,000
European Segment	5,955,293	5,761,624
North American Segment	277,892	274,036
	6,368,185	6,170,660

Note 8. Lease liabilities

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	31.12.2017	30.06.2017	31.12.2017	30.06.2017	31.12.2017	30.06.2017
	\$	\$	\$	\$	\$	\$
Less than one year	316,334	72,034	54,510	2,739	261,824	69,295
Between one year and five years	757,051	54,025	81,516	775	675,535	53,250
More than five years	-	-	-	-	-	-
	1,073,385	126,059	136,026	3,514	937,359	122,545

Within the half year period ended 31 December 2017, the following leases were commenced:

SomnoMed entered into a lease agreement to finance implementation of ERP systems in Australia and North America. The terms of the leases are all 60 months from commencement with a weighted average annual interest rate of 3.37%. The total lease liability is \$566,000 at 31 December 2017.

SomnoMed has also entered into lease agreements to finance purchasing of dental equipment for Renew Sleep Solutions in North America. The amount of the total payable is \$338,000 as at 31 December 2017 with an average interest rate of 7.2% over 4 years.

Note 9. Income tax expense

On 20 December 2017 a tax reform bill was passed in the United States which reduced corporate tax rates from 35% to 21%. As a result of the passing of this legislation, the value of all US based deferred tax assets and liabilities are impacted for the 31 December 2017 half year reporting period. The future benefits of recognised net deferred tax assets were revalued at the new tax rate, which resulted in a lower net deferred tax asset and an increased income tax expense in the period of enactment. Due to this adjustment, an additional amount of A\$1,157,000 (USD \$900,000) was recorded as income tax expense for the period ended 31 December 2017. This revaluation will have no short term impact on cash flows or tax payable.

SomnoMed Limited
Notes to the financial statements
31 December 2017

Note 9. Income tax expense (continued)

Additionally, there was a current year tax adjustment of US\$400,000 for temporary differences that arose in the period. The total USD \$1.3M (A\$1.7M) in US tax expense accounts for the majority of tax expense incurred during the half year for the consolidated entity.

Further to the above, no deferred tax asset has been recognised in relation to the losses incurred for the establishment of the RSS business in the United States. The Directors expect this business to be profitable and a deferred tax asset is likely to arise when the probability criteria for the realisation of those benefits is met.

Note 10. Events subsequent to reporting date

Since the end of the financial period, 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 periods other than as set out below:

On 19 February 2018 SomnoMed Limited announced an accelerated pro-rata Entitlement Offer to raise approximately \$10.4m. The funds raised from the Entitlement Offer will be utilised to provide working capital for the continued expansion of the Renew Sleep Solutions business.

SomnoMed Limited
Declaration by Directors

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Neustadt
Chairman

19th February 2018
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of SomnoMed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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 half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

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

BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'Grant Saxon', written over a faint, stylized BDO logo.

Grant Saxon
Partner

Sydney, 19 February 2018

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

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2017, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Grant Saxon
Partner

Sydney, 19 February 2018