SOMNOMED LIMITED
ABN 35 003 255 221
ASX Preliminary final report – 30 June 2018

Lodged with the ASX under Listing Rule 4.3A

Contents

SomnoMed Limited
Year ended 30 June 2018
Results for Announcement to the Market

				2018	2017
Revenue from ordinary activities	Increase by $14,283,074	Increase by 28.96%	to	$63,610,048	$49,326,974
Revenue from ordinary activities and interest revenue	Increase by $14,354,801	Increase by 29.03%	to	$63,806,011	$49,451,210
Loss from ordinary activities after tax attributable to members	Increased by ($5,275,673)	Increased by 158%	to	($8,619,551)	($3,343,878)
Loss from ordinary activities before tax attributable to members	Increased by $3,977,247	Increased by 135%	to	($6,921,790)	($2,944,543)

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2018 are as follows:

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

The Board has resolved that no dividend will be paid for the year ended 30 June 2018.

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

Review of the financial year 2018

Full year results and the consolidation of the RSS operations

SomnoMed Limited's full year group revenues were $63.6 million (unaudited), representing growth of 29% over the prior year. SomnoMed core revenues were $52.4 million, up 10% from 2017 and Renew Sleep Solutions ("RSS") revenues were $11.2 million, and up from $1.6 million in 2017. The Group EBITDA loss (unaudited) for the year is $6.5 million. SomnoMed's core division contributed a positive $3.9m to this result (+65%), with RSS's annual loss at $10.4 million.

SomnoMed's "Direct to Patient" business, RSS, is now nineteen months old and management has learnt a significant amount regarding the key drivers of success for the "Direct to Patient" model. After careful analysis of the performance of the centres opened to date and a better understanding of the key drivers of the business, it has been decided to reduce its operations from 12 metropolitan areas to 8, to provide the business with a stronger platform for near and long term success.

"Since first launching the RSS initiative we have learnt a considerable amount in how to make these treatment centres successful. Firstly, it is key to provide exceptional patient care and a more seamless customer experience. This we have succeeded in, as reflected by our outstanding on-line patient satisfaction scores. You also need to be able to effectively deal with the complex business of accreditation, insurance claims and case management and build an effective revenue cycle team, which we have also done. It is also critical to attract sufficient patients in as cost-effective manner as possible so as to make the whole model work. This is a combination of targeted multi-layer and efficient consumer marketing, being able to manage the distinct but shifting seasonality, plus finding the right kind of insurance landscape, which can positively influence marketing efficiency and patient acquisition costs," commented Mr Derek Smith, CEO SomnoMed.

"Consolidating our operations to those cities where we believe we can build a successful business, while further developing the model and identifying future expansion opportunities is the right thing to do today. The smaller footprint we are left with enables us to focus on optimising a core number of centres in favourable markets, show we can operate these profitably and provide a solid platform from which to grow in the future. While RSS has not had the trajectory we envisaged only 6 months ago, it remains a key part of our business and strategy," added Mr Smith.

SomnoMed core

The SomnoMed core business made good progress through the year delivering encouraging sales growth in Europe and APAC, as well as achieving improved revenue performance in the North American business in the second half. The European business delivered 26% full year revenue growth, with the second half accelerating to 28%. The key drivers of growth have been positive performance in France, as well as continued strong growth in our Benelux and Scandinavian markets.

In APAC, SomnoMed experienced acceleration in the second half with the business growing at 10%, which is attributable to changes in the go-to-market operations in Australia. SomnoMed core North America posted improved second half revenue results (-2% over prior year second half against first half -16%) as the business implements the adjusted sales strategy to overcome the RSS effect on direct sales.

EBITDA in SomnoMed core business grew 65% year on year to $3.9m, a margin of 7.4%.

The long term opportunity for the SomnoMed core business remains significant and investment is being made to further enhance its competitive advantages with a focus on a its digital supply chain, digital product development, further clinical studies and re-imbursement efforts in those countries where it does not exist.

Renew Sleep Solutions

From inception, the RSS business approached the roll out of treatment centres based on encouraging results from Simple Sleep Services in Dallas/Fort Worth and the early results from the first four centres that RSS opened. However, as the newer centres began to mature and their results were below expectations, it became clear there was a significant level of variation in operating performance. Through ongoing and extensive analysis it became apparent that the "Direct to Patient" model is more complex than was previously anticipated. Market entry into each geographic area is extremely nuanced with key variables of success ranging from re-imbursement levels, the insurance landscape and differing advertising efficacy. These learnings have now provided a much clearer understanding of which markets are favourable to the current RSS model, which ones are not and what to do about those markets that are favourable, but are still underperforming. These learnings, coupled with the goal to manage cash flow more tightly, have led to a decision to reduce the number of cities in which RSS operates from 12 metropolitan areas to 8, thus reducing the number of RSS centres from 16 to 8 from October 2018.

RSS will continue to have an operational base in the markets which are favourable to the current RSS model, where a successful business can be built in the future with a lower cash burden to the overall SomnoMed business. The long term opportunity to treat patients is significant and a smaller number of centres will provide RSS with the best opportunity to deliver treatments to patients over the long term.

The expected revenue growth over FY18 will still be strong and the EBITDA loss for FY19 will be significantly less than FY18's actual result. The anticipated one-off cash cost to close these centres will be in the region of $400k, although on-going premises lease costs will be a drag on the business until these facilities can be either sub-leased or exited. The rescaled size of the RSS operations will reduce the downside risk in cash flow. The financial impact will be to contain the RSS cash requirements to within SomnoMed's cash availability.

Despite the challenges the RSS business presents and the complexity in developing a vertically integrated "Direct to Patient" business, RSS remains a critical part of the SomnoMed strategy.

Group

In summary, the SomnoMed Group posted strong revenue growth for FY18 but disappointing group EBITDA results due to RSS. The core business is making good progress with good revenue growth and margin expansion led mainly by Europe, with improving results in both North America and APAC. The RSS business concluded the year with 16 opened treatment centres with encouraging first cohort results, but with disappointing and varied results thereafter. This has led to the rescaling of the RSS operations from October, thus reducing the downside cash burn and losses to provide a successful base for further expansion into the future.

Net operating cash flow for the year was a negative $9.5 million, after the investment made in RSS for the year at $13 million, indicating a positive cash year for SomnoMed's core business of $3.5 million. Cash held at 30 June 2018 was $13.4 million.

Based on this the guidance for FY19 is as follows:

SomnoMed core business

- Revenue growth of 15%+ to A$60m+
- EBITDA between A$5m – A$5.5m

RSS business

- Revenue growth between 25%-35% to between A$14-15m
- EBITDA loss of between $5–6m, representing a conservative guidance given the current risk (effective run rate loss of between $4-5m when excluding the Q1 costs incurred in FY19 of those centres to be closed on 1 October 2018 but including rental expenses of closed centres)

SomnoMed Limited

Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

	Note	2018 $	2017 $
Revenue from sale of goods and services, net of discounts		63,610,048	49,326,974
Cost of sales		(25,419,516)	(20,517,224)
Gross margin		38,190,532	28,809,750
Sales and marketing expenses		(21,464,810)	(13,698,398)
Administrative expenses		(18,415,953)	(12,678,003)
Operating (loss)/profit before corporate, research and business development expenses, other items of revenue and expenses and income tax		(1,690,231)	2,433,349
Corporate, research and business development expenses		(4,785,564)	(4,130,384)
Interest income		195,963	124,236
Net fair value loss on contingent consideration payable		(51,997)	(32,551)
Share based payments		(718,099)	(805,502)
Depreciation and amortisation		(1,676,506)	(1,232,311)
Impairment of goodwill	13	(138,563)	(40,000)
Interest expense		(199,595)	(20,422)
Loss on disposal of fixed assets		-	(6,025)
Unrealised foreign exchange loss		(31,409)	(54,386)
Loss before income tax		**(9,096,001)**	**(3,763,996)**
Income tax expense attributable to operating loss	14	(1,615,240)	(399,335)
Loss after income tax for the year		**(10,711,241)**	**(4,163,331)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation difference for foreign operations		1,000,825	(761,137)
Other comprehensive income for the year, net of tax		1,000,825	(761,137)
Total comprehensive income for the year attributable to the owners of SomnoMed Limited		**(9,710,416)**	**(4,924,468)**
Loss for the year is attributable to:			
Owners of the parent		(8,619,551)	(3,343,878)
Non-controlling interest		(2,091,690)	(819,453)
		(10,711,241)	**(4,163,331)**
Total comprehensive income for the year attributable to:			
Owners of SomnoMed Limited		(7,618,726)	(4,105,015)
Non-controlling interest		(2,091,690)	(819,453)
		(9,710,416)	**(4,924,468)**
Basic earnings per share (cents per share)	9	(15.50)	(6.23)
Diluted earnings per share (cents per share)	9	(15.50)	(6.23)

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

SomnoMed Limited
Preliminary Consolidated Statement of Financial Position
as at 30 June 2018

ASSETS	**Note**	**2018 $**	**2017 $**
Current Assets			
Cash and cash equivalents		13,383,389	14,210,321
Trade and other receivables		13,581,962	10,196,708
Inventory		2,002,565	1,947,565
Total Current Assets		28,967,916	26,354,594
Non-Current Assets			
Trade and other receivables		478,623	264,738
Property, plant and equipment		6,610,154	4,491,423
Intangible assets	13	6,860,268	6,632,530
Deferred tax asset		2,780,670	3,468,762
Total Non-Current Assets		16,729,715	14,857,453
Total Assets		45,697,631	41,212,047
LIABILITIES			
Current Liabilities			
Trade and other payables		8,380,629	7,882,837
Lease liabilities	12	398,160	69,295
Provisions		2,024,049	1,547,355
Current tax liabilities		737,400	449,665
Total Current Liabilities		11,540,238	9,949,152
Non-Current Liabilities			
Lease liabilities	12	1,036,841	53,250
Provisions		351,778	254,839
Total Non-Current Liabilities		1,388,619	308,089
Total Liabilities		12,928,857	10,257,241
Net Assets		**32,768,774**	**30,954,806**
EQUITY			
Issued capital	15	57,743,645	46,937,360
Reserves		6,134,830	4,415,906
Accumulated losses		(27,759,081)	(19,139,530)
Equity attributable to owners of SomnoMed Limited		36,119,394	32,213,736
Non-controlling interests		(3,350,620)	(1,258,930)
Total Equity		**32,768,774**	**30,954,806**

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

SomnoMed Limited
Preliminary Consolidated Statement of Changes in Equity
for the year ended 30 June 2018

	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 year	-	-	(8,619,551)	(8,619,551)	(2,091,690)	(10,711,241)
Other comprehensive income for the year, net of tax	-	1,000,825	-	1,000,825	-	1,000,825
Total comprehensive income for the year	-	1,000,825	(8,619,551)	(7,618,726)	(2,091,690)	(9,710,416)
Transactions with owners in their capacity as owners:						
Shares issued during the period	11,178,011	-	-	11,178,011	-	11,178,011
Share issuance costs	(371,726)	-	-	(371,726)	-	(371,726)
Share option reserve on recognition of remuneration options	-	718,099	-	718,099	-	718,099
Balance at 30 June 2018	57,743,645	6,134,830	(27,759,081)	36,119,394	(3,350,620)	32,768,774

	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 year	-	-	(3,343,878)	(3,343,878)	(819,453)	(4,163,331)
Other comprehensive income for the year, net of tax	-	(761,137)	-	(761,137)	-	(761,137)
Total comprehensive income for the year	-	(761,137)	(3,343,878)	(4,105,015)	(819,453)	(4,924,468)
Transactions with owners in their capacity as owners:						
Shares issued during the period	2,352,116	-	-	2,352,116	-	2,352,116
Share issuance costs	(71,409)	-	-	(71,409)	-	(71,409)
Share option reserve on recognition of remuneration options	-	805,502	-	805,502	-	805,502
Acquisition	104,437	-	-	104,437	-	104,437
Balance at 30 June 2017	46,937,360	4,415,906	(19,139,530)	32,213,736	(1,258,930)	30,954,806

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

SomnoMed Limited
Preliminary Consolidated Statement of Cash Flows
for the year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		60,255,523	49,011,553
Payments to suppliers and employees (inclusive of GST)		(69,671,738)	(50,677,585)
Interest received		74,643	124,235
Interest paid		(75,477)	(20,423)
Income tax paid		(51,788)	(1,117,450)
Net cash outflow from operating activities	10	(9,468,837)	(2,679,670)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(103,932)
Final payment of contingent consideration		(25,547)	-
Payments for intangible assets		(163,030)	(238,857)
Payments for property, plant and equipment		(2,009,777)	(2,392,392)
Net cash outflow from investing activities		(2,198,354)	(2,735,181)
Cash flows from financing activities			
Proceeds from issue of shares		11,153,371	2,352,116
Share issuance costs		(371,726)	(71,410)
Payment of finance lease		(237,115)	-
Net cash inflow from financing activities		10,544,530	2,280,706
Net decrease in cash and cash equivalents		(1,122,661)	(3,134,145)
Cash at beginning of the financial year		14,210,321	17,632,252
Exchange rate adjustment		295,729	(287,786)
Cash at the end of the financial year		13,383,389	14,210,321

The cash balances at 30 June 2018 and 30 June 2017 are represented by cash at bank and money market securities.

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

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 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 preliminary financial report has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Standards Board and the Corporations Act 2001 as appropriate for profit oriented entities. The preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public pronouncements made by the consolidated entity during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001. Unless otherwise detailed in this note, accounting policies have been consistency applied by the entities in the group, and are consistent with those applied in the 30 June 2017 annual report.

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Use of judgments and estimates

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of Consolidation

Controlled entities

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

Transactions eliminated on consolidation

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

Business combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of Consolidation (continued)

Business combinations

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 re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is re-measured 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency (continued)

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

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

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

Determination of fair values

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

Other

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

g. Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Provisions (continued)

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 income statement over the life of the lease.

h. Impairment

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

Calculation of recoverable amount

Receivables

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

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Impairment (continued)

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 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

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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Intangibles

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.

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

Patents	10 years	Product development expenditure capitalised	5 years

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.

l. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Receivables

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

n. 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.

o. Payables

Trade and other payables are stated at amortised cost.

p. Finance income and expense

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

q. 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.

r. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Accounting judgment and estimates

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

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Accounting judgment and estimates (continued)

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.

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.

t. Share Capital

Ordinary shares

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

u. 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 2018. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. As the Group operates its sleep centres through operating property leases, the directors anticipate that the adoption of AASB 16 will have an impact due to the amount of property leases which will be brought onto the financial statements.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted this standard from 1 July 2018. The consolidated entity has applied the principles of this standard to its business and concludes that the consolidated entity correctly recognises revenue at the time that the custom-made goods are transferred to its customers. The recognition of revenue is in an amount that correctly reflects the consideration to which the consolidated entity expects and is entitled to for the exchange of such goods. The directors have concluded that there will be no significant changes to the manner in which the consolidated entity recognises revenue, based on a detailed review of the five step revenue recognition policy in the standard with reference to agreements and invoices with customers.

v. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w. 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.

x. 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.

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.

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.

4. FINANCIAL RISK MANAGEMENT (continued)

Overview (continued)

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 94% (2017-93%) of the Consolidated Entity's revenues and over 89% (2017-85%) 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. Events occurring after reporting 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, except that in August 2018 it was decided to close eight centres in the Renew Sleep Solutions (“RSS”) business from 1 October 2018. The directors believe that this should reduce RSS’s losses from that date.

6. Other significant information

N/A.

7. Foreign Accounting standards

N/A.

8. NTA Backing

	2018	2017
Net tangible asset backing per ordinary share	37.18 cents	36.04 cents

9. Earnings per Share

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

	2018	2017
Net loss used in calculating basic and diluted earnings per share	($8,619,551)	($3,343,878)
Basic loss per share (cents per share)	(15.50)	(6.23)
Diluted loss per share (cents per share)	(15.50)	(6.23)
Weighted average number of shares used in the calculation of basic earnings per share	55,612,407	53,657,916
Weighted average number of shares used in the calculation of diluted earnings per share	59,402,448	57,407,600
Shares on issue at year end per accounts	58,111,834	54,238,585
Number of options on issue at year end – each option is exercisable at between $2.35 and $4.00 per share and converts to one ordinary share	1,625,000	1,175,000

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

	2018	2017
Shares on issue at end of year	62,205,668	57,867,419
Less: Share issued but not recorded in accounts (being shares issued to executives to acquire shares in the Company utilising funds advanced by the Company)	(4,093,834)	(3,628,834)
Number of shares recorded as issued capital in Company's accounts	58,111,834	54,238,585

10. Cash flow reconciliation

Reconciliation of operating loss after income tax to net cash outflow from operating activities	2018 $	2017 $
Operating loss after income tax	(10,711,241)	(4,163,331)
Share and option expense	718,099	805,502
Impairment of goodwill	138,563	40,000
Depreciation and amortisation	1,676,506	1,232,311
Net exchange differences	31,408	54,386
Change in operating assets and liabilities		
Decrease/(increase) in inventories	53,196	(343,437)
Increase in receivables	(3,019,471)	(2,545,227)
Increase in trade & other payables	225,970	1,916,121
Increase in provisions	768,488	819,934
Decrease/(increase) in deferred tax assets	649,645	(495,929)
Net cash outflow from operating activities	(9,468,837)	(2,679,670)

11. Segment Operations

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

The 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.

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.

Information about reportable segments

Geographic location:	**Asia Pacific**	**North America**	**North America (RSS Component)**	**Europe**	**Total**
2018	**$**	**$**	**$**	**$**	**$**
External sales revenue	**4,192,546**	**17,845,371**	**11,216,465**	**30,355,666**	**63,610,048**
Segment net profit/(loss) before tax	**692,401**	**2,305,564**	**(10,376,331)**	**5,649,526**	**(1,728,840)**
Unallocated expense items					(5,496,463)
Impairment goodwill		(138,563)			(138,563)
Fair value adjustment				(51,997)	(51,997)
Depreciation and amortisation	(576,850)	(421,205)	(498,866)	(179,585)	(1,676,506)
Interest received					195,963
Interest paid					(199,595)
Loss before tax					**(9,096,001)**
Income tax expense					(1,615,240)
Loss after tax					**(10,711,241)**

11. Segment Operations (continued)

Geographic location:	**Asia Pacific**	**North America**	**North America (RSS Component)**	**Europe**	**Total**
2017	**$**	**$**	**$**	**$**	**$**
External sales revenue	**4,004,747**	**19,709,115**	**1,587,381**	**24,025,731**	**49,326,974**
Segment net profit/(loss) before tax	**795,399**	**2,268,986**	**(4,063,437)**	**3,499,411**	**2,500,359**
Unallocated expense items					(5,095,858)
Depreciation and amortisation	(605,722)	(390,571)	(79,029)	(156,989)	(1,232,311)
Impairment	(40,000)	-		-	(40,000)
Interest received					124,236
Interest paid					(20,422)
Loss before tax					**(3,763,996)**
Income tax expense					(399,335)
Loss after tax					**(4,163,331)**

12. Lease Liabilities

	Future minimum lease payments		**Interest**		**Present value of minimum lease payments**	
	2018 $	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**
Less than one year	484,000	72,034	85,840	2,739	398,160	69,295
Between one year and five years	1,137,219	54,025	100,378	775	1,036,841	53,250
More than five years	-	-	-	-	-	-
	1,621,219	126,059	186,218	3,514	1,435,001	122,545

Within the year ended 30 June 2018, 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 $621,959 at 30 June 2018.

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 $758,309 as at 30 June 2018 with an average interest rate of 7.3% over 4 years.

13. Intangibles

	2018 $	2017 $
Patents and trademarks – at cost	1,239,825	1,098,302
Accumulated amortisation	(792,160)	(688,114)
	447,665	410,188
Product development expenditure capitalised	462,944	462,944
Accumulated amortisation	(425,638)	(411,262)
	37,306	51,682
Goodwill	6,375,297	6,170,660
	6,860,268	6,632,530

Movements in patents and trademarks

	2018 $	2017 $
Balance at beginning of year	410,188	268,484
Additions	117,738	184,323
Amortisation expense	(95,352)	(44,916)
Foreign currency translation difference	15,091	2,297
Balance at end of year	447,665	410,188

Movements in product development expenditure capitalised

	2018 $	2017 $
Balance at beginning of year	51,682	115,906
Amortisation expense	(14,376)	(64,224)
Impairment	-	-
Balance at end of year	37,306	51,682

Movements in goodwill

	2018 $	2017 $
Balance at beginning of year	6,170,660	6,237,531
Impairment of goodwill SomnoMed Canada (refer below)	(138,563)	-
Impairment of goodwill SomnoMed Korea	-	(40,000)
Foreign currency translation difference	343,200	(26,871)
Balance at end of year	6,375,297	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 expense per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

13. Intangibles (continued)

In November 2015, SomnoMed acquired the entire business of Strong Dental in Canada, enabling it to sell SomnoDent® MAS devices in the Canadian market, including manufacturing knowledge and market knowledge.

During the year, management undertook a review for indicators of impairment and determined that the total goodwill in relation to Canada was impaired by A$138,563 (C$136,548).

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

	2018	2017
	$	$
Asia Pacific Segment	135,000	135,000
European Segment	6,099,990	5,761,624
North American Segment	140,307	274,036
	6,375,297	6,170,660

14. 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 30th June 2018 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$1,035,000 (USD $800,000) was recorded as income tax expense for the year ended 30th June 2018. This revaluation will have no short term impact on cash flows or tax payable.

Additionally, there was a current year tax adjustment of US$700,000 for temporary differences related to accruals and provisions that arose in the period. The total USD $1.5 million (A$1.9 million) in US tax expense accounts for the majority of tax expense incurred during the year for the consolidated entity.

Following the change of French government policy, which officially approved oral appliance therapy as the first line treatment, SomnoMed France has achieved significant growth after several years of losses. This policy change, supported by a strong revenue growth in FY2018 and an improved business forecast for the following years, has resulted in the raising of a deferred tax asset in the amount of EUR 763,000 (AUD 1,200,000) as at 30 June 2018.

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.

15. Issued Capital

	2018 $	2017 $
Issued and fully paid ordinary shares		
62,205,668 (2017: 57,867,419) ordinary shares		
Balance of issued capital at the beginning of year	54,572,473	51,282,286
Shares issued during period:		
- 6,592 pursuant to acquisition of subsidiary at $3.74 on 12 September 2017	24,642	-
- 250,000 pursuant to exercise of options $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	-
- 1,967,410 pursuant to issue of shares at $3.00 on 27 February 2018	5,902,230	-
- 1,489,247 pursuant to issue of shares at $3.00 on 22 March 2018	4,467,740	-
- 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	(371,726)	(71,410)
Balance of issued capital at end of year	67,439,109	54,572,473
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	(9,695,464)	(7,635,113)
Issued share capital recorded in the Company accounts	57,743,645	46,937,360

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 2018 there were 5,718,834 (2017: 4,803,834) unissued ordinary shares for which options were outstanding (including 4,093,834 (2017: 3,628,834) issued ordinary shares which are treated as options in these accounts).

16. Non-controlling interests

Reconciliation	2018 $	2017 $
Balance at beginning of reporting period	(1,258,930)	(439,477)
Loss after income tax	(2,091,690)	(819,453)
Balance at end of reporting period	(3,350,620)	(1,258,930)
NCI breakdown by entity		
SomnoMed France	(392,158)	(424,084)
Renew Sleep Solutions	(2,958,462)	(834,846)
Balance at end of reporting period	(3,350,620)	(1,258,930)

Audit

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

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

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

Sign here: .... Date: 22nd August 2018
(Director)

Print name: P Neustadt