SomnoMed®

The Leader In COAT™

(Continuous Open Airway Therapy)

# 2018 ANNUAL REPORT

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# SOMNOMED LIMITED
# CHAIRMAN'S LETTER

Dear SomnoMed Shareholder,

The financial year 2018 resulted in an EBITDA* loss of $6.5 million. This made it financially the worst year in the history of SomnoMed. It came despite SomnoMed's core business producing healthy, ongoing growth in its revenues and gross margins with a 65% growth in its EBITDA* to $3.9 million, after absorbing all of SomnoMed's corporate overheads. However, the good result was offset by a much greater than expected start up loss of $10.4 million generated by our new Renew Sleep Solutions ("RSS") business in the United States.

The decision to start creating a direct-to-consumer treatment business in the United States was based on the fact that the adoption of the treatment of obstructive sleep apnea (OSA) with an oral appliance ("COAT™") in the USA is well behind what is experienced in a number of other countries, especially in Europe. In Europe, COAT™ is increasingly and pro-actively recommended by medical associations, sleep specialists and public insurers for patients with mild and moderate conditions and for patients with severe conditions who are non-compliant with CPAP. Reimbursement is now offered in most European countries with clear treatment recommendations for COAT™. Several other European and APAC countries are at various stages of considering reimbursement in the future, which is likely to produce long term growth to a level where as many as 30-50% of all diagnosed patients will receive oral appliances instead of CPAP masks.

The United States is the world's biggest OSA market and often represents about two thirds of the revenues of global companies involved in the treatment of OSA. The fact that SomnoMed treated as many patients in the last financial year in Europe as in the USA and generated substantially higher revenues and growth rates in Europe than in the US could be seen as an abnormality. Behind it stands a slow adoption of COAT™ in the USA which, based on our research, still sees less than 10% of the diagnosed US patients being treated with COAT™. This, together with the impressive history and results of Simple Sleep Services (S3) in Texas, was the principle reason for the decision to establish our new RSS business.

However, this was a pioneering step where the only available prior data came from the S3 business in Texas. Whilst socio-demographic differences, including the prevalence of OSA, between Texas and other US States were factored in, a lack of understanding of other factors, especially relating to the impact of different insurance reimbursement regulations and accreditation conditions in different US states became important factors, which were only better understood once individual centres provided twelve months trading history.

RSS is a new business. It is based on the need of millions of US patients who are suffering from OSA and cannot accept CPAP as a treatment solution. RSS has been set up professionally using accredited and experienced sleep specialists and dentists trained in the treatment of OSA patients. It is a one-stop concept allowing patients to understand better their treatment options, assist with their reimbursement applications and offer high quality diagnostic, treatment and follow up services. Our research shows that patients who used RSS's services have rated the service and treatment they received very highly. At the same time, the take-off experienced in different cities produced vastly different results and presented us with losses well above those we had initially anticipated. However, based on the above and trends and results of successful centres, we concluded that RSS is strategically the right way to go to increase the acceptance and adoption of COAT™ and at the same time grow our business in the United States significantly over the longer term.

Notwithstanding that, based on the learnings of the last eighteen months, the roll out strategy and implementation had to be changed. It now focuses on US states and cities where the insurance landscape and other important factors now better understood allow us to expect to operate more successfully within an acceptable time frame. This together with many other improvements in our media strategy, the operation of our call centre and the content and style of our advertising, let us believe that RSS will become a strategically important and successful business for SomnoMed in the future.

The reduction of the footprint of RSS by closing a number of slowly developing centres was also dictated by financial circumstances and the fact that SomnoMed will do everything necessary to ensure that RSS is self-funding. This decision requires balancing the inevitable start-up losses of RSS centres with profits generated in its core business.

Whilst your Board is disappointed with the results achieved in the last financial year, it believes that the strategy we pursued is the right one and that the lessons learned from the implementation of a very complex direct to consumer business are behind us and the necessary changes are now being implemented. The future of our core business is bright, as the awareness of OSA is continuing to grow globally. More and more patients are diagnosed with easier to use technology, the compliance issues with CPAP remain significant and more and more insurers are seeing the benefits of COAT™, its effectiveness and high compliance rates. RSS will allow us to broaden the market and is likely to generate high future growth rates in our US business. Because of that, we believe that SomnoMed is on the right path to deliver a high growth and profitable business for our shareholders in the future.

Allow me to thank you for your ongoing support, especially in difficult times as those we have experienced in the financial year 2018. We strongly believe that this set back in time will be seen as an important step in allowing SomnoMed to become a much larger global business than it would otherwise be.

Yours sincerely,

Dr Peter Neustadt
Chairman

* EBITDA as adjusted does not include share and option expense, gain/(loss)on contingent consideration payable and impairment of goodwill

# SOMNOMED LIMITED
# CEO'S REPORT

Dear SomnoMed Shareholder,

The 2017/18 year was obviously difficult for SomnoMed as we continue down the road of becoming a sleep solutions business. While there are many positive things to be proud about, particularly in Europe and APAC, our transition in the USA has been disappointing and difficult. Nonetheless we remain committed to this path, recognizing that things did not go as we planned and expected, which necessitated corrective action, but this was not surprising given the scale and nature of what we are trying to achieve. While we remain committed to this strategy, we are approaching the transition with more caution.

On the bright side our SomnoMed core business continues to grow and sees improved profit margins, despite the slowdown in the USA. Our Renew Sleep Solutions business ("RSS") grew aggressively in the USA but not at the rate we expected and incurred a much greater loss than anticipated. In this process we have learnt a great deal about what the key critical success factors are in this business and are reducing the size of the RSS footprint to really show what this business can do in the right circumstances. It is fair to say that we expanded too quickly based on limited experience and in retrospect we should have phased this more cautiously. However, on the other hand, we may not have learned the things we did as quickly had we not rolled out the centres in such a manner. Rear view mirrors are always enlightening but not always useful. This past year has been disappointing in some regards, however we are optimistic that our core business is strong and whilst RSS has hit hurdles we believe can recover and build that business. We are confident in the overall opportunity for SomnoMed and the strategy we have set is large and sound.

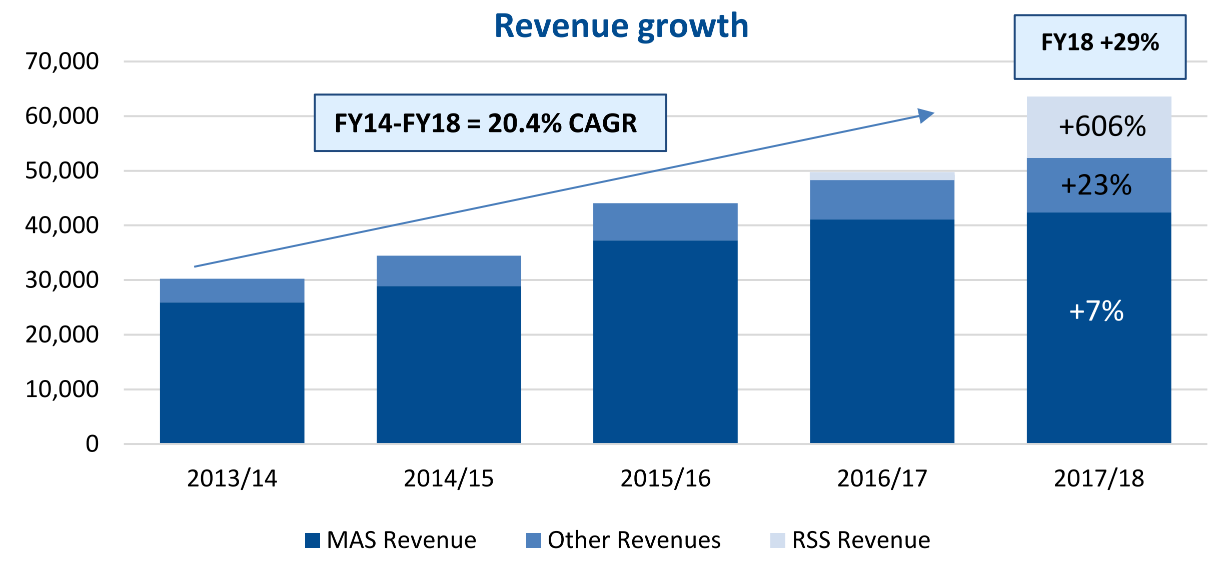
**We have a large opportunity and our strategy remains consistent**

The opportunity to help treat the millions of sufferers of Obstructive Sleep Apnea ("OSA") remains very large and growing. Treating OSA with COAT™ ("Continuous Open Airway Therapy"), which has been pioneered by SomnoMed, has enormous potential. Given that in many circumstances it is equally effective to Continuous Positive Airway Pressure ("CPAP"), which is the predominant therapy used today, the opportunity is clear. While in some European countries, notably Sweden and the Netherlands penetration of COAT™ is in the 35-50% range for newly diagnosed patients, in most countries COAT™ penetration is 10% or less, indicating that the opportunity for expansion is very high. Indeed, the market for oral devices such as those offered by SomnoMed is typically growing in the 15-30% range in markets with strong clinical guidelines and re-imbursement, while in others where there is no re-imbursement market growth is lower than this.

While COAT™ therapy has a lot of potential, there are still barriers to its acceptance including the complex treatment pathway, the cost of treatment in some countries, and the clinical adoption and acceptance in others. To ensure that COAT™ gets its fair share of patients that would benefit from COAT™, SomnoMed is working to overcome these barriers by offering a range of solutions. First and foremost, we offer a wide range of oral devices, which cover the vast majority of patient needs, as well as meeting the various regulatory and quality standards for medical devices. We work with various bodies to promote stronger clinical guidelines, as well as investing and supporting clinical research which support the science. In some countries we work with insurance companies to maintain effective quality dental networks, affordable patient and insurance costs, as well as ensuring quality devices are used. While in other countries, particularly the United States, we are expanding our services and offering dental and medical services, which simplify the normal therapy pathway by offering all medical and dental services under one roof. Patients are attracted to this service with a better patient experience, and captured by direct to consumer marketing, opening up dormant patient pools, such as those that cannot tolerate or have never used CPAP as well as those that have not yet been diagnosed. Our belief is that this is expanding the overall size of the market and is good for the industry and patients at large. While the above means that we are diversifying and moving from being just a sleep device company to being involved in insurance dental network management, as well as moving into direct to consumer marketing and the enabling of medical and dental services, these are steps to becoming a more comprehensive sleep solutions business.

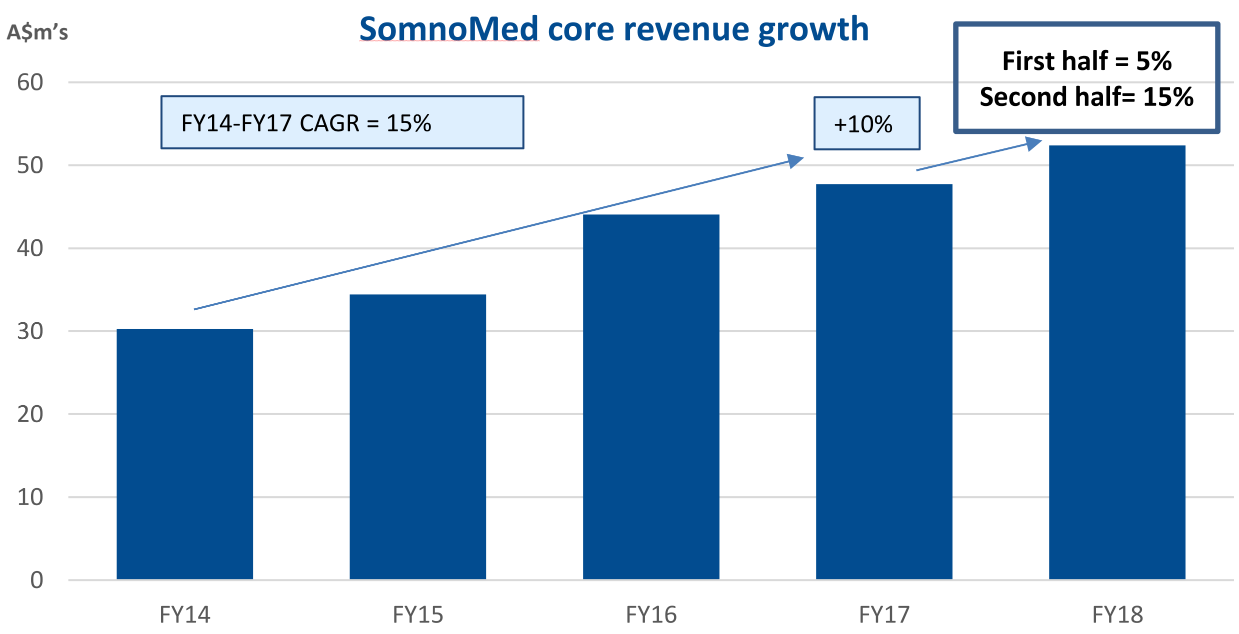
**Business overview – a difficult year with a positive core business performance offset by the performance of a young RSS business**

Overall, the business was able to show revenue growth of 29% over the previous year but with losses of $6.476m due to the greater than expected losses in Renew Sleep Solutions. While the top-line growth was fuelled primarily by Europe (26% revenue growth) and RSS in the USA, good results were also enjoyed in APAC and primarily Australia.




**The SomnoMed core business had solid growth and showed good margin expansion**

The SomnoMed core business grew revenues by 10% in 2018/19. This was driven by a very strong performance in Europe with revenue growth of 26% and growth of 5% in APAC, which was offset by a decline in the USA of 10%.



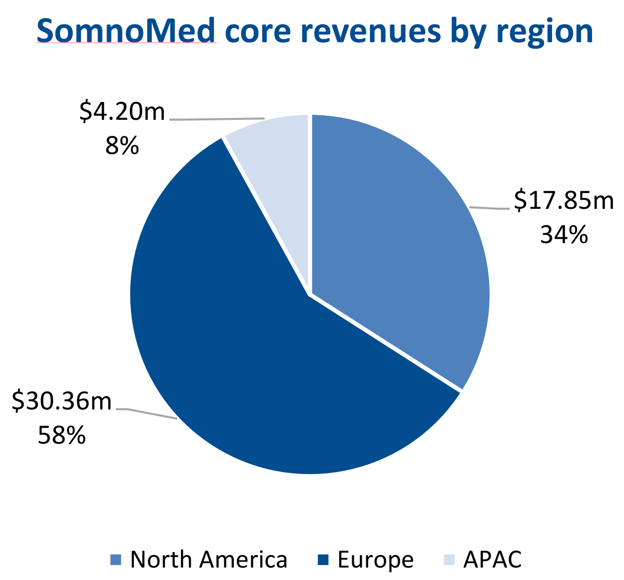
**The SomnoMed core business had solid growth and showed good margin expansion (continued)**

Results in Europe were very pleasing with most countries contributing. Scandinavia and Benelux continued their strong growth, with high penetration of COAT™ prescriptions versus CPAP.

France after the previous year's announcement of new COAT™ re-imbursement for dentists and ENT's also began to see significant growth. There continues to be increasing momentum in both Germany and the UK to explore re-imbursement for COAT™ in the future. All in all, a very good result, with expectations that growth in Europe can be more than 20% for a lot more years to come.

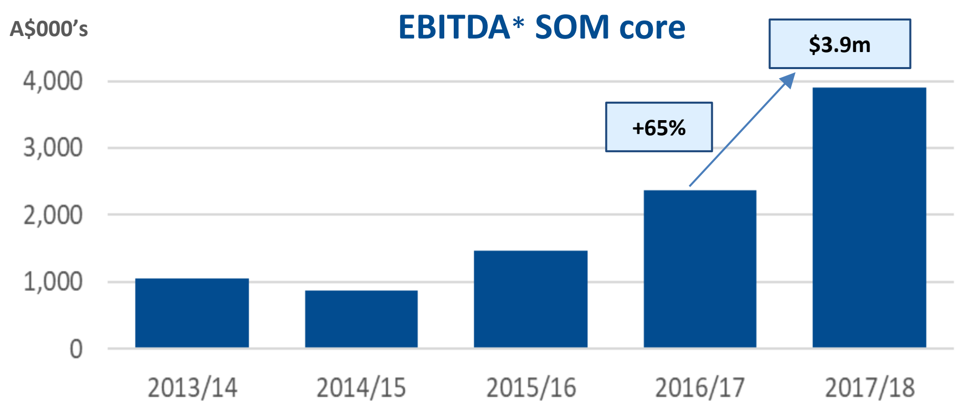
In APAC, where Australia contributes most of the revenues, we got off to a very slow start showing flat year over year growth in the first half. A strong second half allowed us to post annual results which are more indicative of our future expectation, which is approximately 10% growth for those markets without re-imbursement.

In the USA, results were challenged by ongoing channel conflict between our core dental channels and RSS. This conflict does not appear to be dissipating. While some remain loyal to us and continue to support us there are certain factions of our customers who remain discontent. We hope to bring back growth to this part of our business through our re-shaped strategy. This includes obviously supporting and serving our existing customers with great products and exceptional service, continuing with our growing managed care business, refocusing some of our sales and marketing efforts on direct to clinician efforts to influence COAT™ prescriptions as well as linking these physicians to new and established COAT™ dentists. We will explore new and growing segments such as the Veteran's Association and a growing corporate dental services business. While it is too early to say whether this is working, our US direct business which declined by 16% in the first half of the year showed some encouraging signs in the second half with only a 2% decline. We remain optimistic for the coming year.



**The SomnoMed core business had solid growth and showed good margin expansion (continued)**

Overall for the SomnoMed core business grew its EBITDA* by 65% to $3.9m and as a percentage of sales up from 4.9% to 7.4% after corporate overheads. This increase in profitability was driven by increased volume, improved operational efficiencies and better product margins as well as leverage of sales and marketing expenses as we grow.




**EBITDA as adjusted does not include share and option expense, gain/(loss) on contingent consideration payable and impairment of goodwill

**Renew Sleep Solutions - Disappointing results after early encouraging signs, leads to critical lessons and re-structuring to form the framework for a more optimistic future**

In 2016/17 we launched the RSS business in the United States but 2017/18 was the first full year of operations so the business is still very young. The concept was based on the business model of a Texas based company called Simple Sleep Solutions, which has run a direct to patient model similar to RSS successfully for some four years in Dallas Fort Worth. RSS has aggressively rolled out that model to 16 centres in 12 cities by the end of 2017/18 and investing approximately A$13m during the year. This approach was encouraged by the Simple Sleep results and early results from the first four centres (first cohort) that we launched last year.

Since this time results from the following two cohorts (each cohort having 4 centres) emerged that were significantly poorer than those of the initial cohort which had obviously significantly affected results, both from a revenue and profitability perspective and this caused us to pause and re-evaluate. Upon analysing the results and trying to find out why the approach is working in some markets but not others we made several key learnings. The first is that the Simple Sleep model cannot be replicated in each market. Our marketing in each market must be tuned to find the right media coverage, messaging and obtain a cost of patient acquisition that the business model can afford.

The second is that we cannot just target the most prolific age and gender group (males aged 30-65) but need to reach all target groups, which obviously affects message and media strategies. The third and probably the most important is that being "in-network" with insurance companies with enough lives in a market, significantly affects marketing efficiency. Further, being able to get in-network with enough lives is also a function of the local insurance landscape and how competitive it is and whether such networks actually exist.

Our conclusion is that the market size required to sustain the current model is larger than we anticipated, which affects our current and ongoing criteria for city selection. The good news is that while we do not believe we have learnt everything that needs to be learned yet, we now know enough to be able to draw up a list of key success criteria and tactics which we believe can be the precursor for future success.

**Renew Sleep Solutions - Disappointing results after early encouraging signs, leads to critical lessons and re-structuring to form the framework for a more optimistic future (continued)**

Consequently, we have revised our strategy and consolidating our business to those cities which we believe meet the criteria for success. We will adopt the appropriate tactics to provide us the best chance in these markets. We are very cognisant that the business has consumed significant cash and making large losses and we want to size the business to a point where we can cover the risk we have with profits from the SomnoMed core business so that we do not have to come to the market for more investment, We have consolidated our operations to eight cities where we think there is a good chance for success and we will have just one centre in each of these cities. After consolidating to these core eight cities we expect that we can still grow year over year and we envisage a much improved EBITDA performance. Once the model shows significant improvement we will plan to open new centres in 2020.

In terms of the future potential of this business, we still believe there are enough cities in the USA which meet our critical success criteria with today's model providing a large opportunity for RSS. Of course, as the model develops and improves, other cities not considered desirable at this time may well become so in the future. While RSS clearly has not gone as expected and we have faced significant challenges, we believe the opportunity is still strong, assuming we can meet these challenges successfully. We have learned that this is far more complex than we first thought and the knowledge and business expertise we are gaining from these learnings will provide us with a competitive advantage and will put us in the leader's bracket in offering such services.

**Investing in scaling the business and developing a robust product development pipeline**

Last year we invested in several operational initiatives and are starting to see the benefit with improved margins, which has contributed to our improved EBITDA in 2017/18. This included implementing more LEAN operations in our production facility, improved materials sourcing and management, implementing digital scanning in all our hubs and accepting digital intra-oral scans direct from dentists. We also implemented our new IT systems into our North American and Australia operations from which we will see the benefits in 2018/19. These systems will be further rolled out during 2018/19. Moving our organisation onto a unified IT systems platform will improve productivity and allow the receipt of digital orders from our customers and further enhance our customer service.

On the product development side while we made no significant new launches in 2017/18, we have been actively working on a major new device, which will offer unique benefits to patients and customers. This device is now in clinical trials and we expect to launch it in the second half of 2018/19.

## The year ahead

We are very optimistic about our business and its growth prospects in 2018/19. The continuing growth and incidence rate of OSA in all the countries in which we operate, the growing need for an effective alternative to CPAP and the accelerated adoption of COAT™ as a therapy are all good fundamental trends for the future growth of our business.

Our SomnoMed core business should see 15% revenue growth with Europe continuing its aggressive march forward with growth of 20% or more, APAC continuing its second half momentum and expected to show high single digit, low double-digit growth and the USA expected to show some growth, although still facing significant headwinds. We also expect to see further margin expansion in our core business, as the impact of the operational improvements we are putting in place continue.

## The year ahead (continued)

In RSS, we are optimistic about the growth and future prospects for the business. Consolidating our operations to those cities where we believe the right conditions exist, plus a better play book should give us a good chance of success in this business. We have yet to prove this, so there is still uncertainty with this business, but it is a start-up and there is always risk. However, we are still convinced that this is a key part of our strategy and believe this business has great potential.

Our guidance for the financial year 2018/19 reflects the strong growth in our core business and a conservative view of our RSS business, being a young business. Given this our guidance is for revenue growth of 16-18% and a breakeven EBITDA* (+/-$ 1.0m)

We see increasing acceptance of COAT™ in many of our markets and the higher patient flow generated through the RSS concept, which I believe will provide high growth in the years to come, even if our forecast for 2018/19 is a little muted given some of the risks we have to work through. SomnoMed has a very strong future ahead and it is a privilege to lead a company that helps people to sleep and perform better, increases their life expectancy and allow them to enjoy a happier and healthier life.

I would like to extend my thanks to our management and employees throughout the world, the physicians and dentists who support this therapy, and of course to the support of our shareholders.

Yours sincerely,

Mr Derek Smith
Global Chief Executive Officer

* EBITDA as adjusted does not include share and option expense, gain/(loss)on contingent consideration payable and impairment of goodwill

# DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of SomnoMed Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

**Directors**

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

Peter Neustadt

Robert Scherini

Lee Ausburn

Hamish Corlett (appointed 1st May 2018)

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

**Principal Activity**

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

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

**Operating Results**

The loss of the Consolidated Entity amounted to $10,711,241 (2017: a loss of $4,163,331). A more detailed review of the operations is contained on pages 3 to 8 of the Annual Report, which accompanies this Directors' Report.

**Dividends Paid or Recommended**

There are no dividends paid, declared or recommended for the year ended 30 June 2018 (2017: Nil).

**Significant Changes in State of Affairs**

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

**After Balance Date Events**

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

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

(ii) The results of those operations

(iii) The state of affairs of the Company in subsequent years, except than in August 2018 it was decided to close eight centres in the Renew Sleep Solutions ("RSS") business before 1 October 2018. The directors believe that this should reduce RSS's losses from that date. The impact of these closures will be a reduction of significant expenditure relating to the operation and marketing of those centres and such savings are currently being quantified. Except for the closure of the abovementioned RSS centres, 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.

**Future Developments**

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

**Directors**

**Peter Neustadt**

**Non-Executive Chairman, Member of the Audit Committee**

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

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

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

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

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

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

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

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

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

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

Lee was President of the Pharmacy Faculty Foundation, University of Sydney until December 2017.

**Hamish Corlett**
**Non-Executive Director, BComm (Hons), GradDipCouns**

Hamish is a founder and director of TDM Growth Partners, a leading private investment firm specializing in long term investments in high growth companies globally. TDM made its first investment in SomnoMed in April 2010 and has been a substantial shareholder in the Company since October 2012.

Prior to TDM, Hamish worked as an Investment Manager at Caledonia Investments, a global fund manager. He has extensive investment experience in North America and worked for a number of years in London in an operating role at Europe's largest online retailer of sporting goods. After returning to Sydney, he worked in mergers and acquisition corporate advisory with Caliburn Partnership (now Greenhill).

Hamish holds a Bachelor of Commerce with Honours Class 1 (Accounting and Finance) from the University of Sydney and a Graduate Diploma of Counselling from the Australian College of Applied Psychologists.

**Chief Executive Officer**

**Derek Smith B.Sc., Biochemistry**
Derek held senior positions with Respironics, Inc. since 2005 and prior to his appointment as Chief Executive Officer of the Company in September 2016. He had an outstanding career over the years in sales and marketing of various US and international healthcare companies, which included E Merck, Datex Ohmeda and McKesson. In 2005 Derek accepted the appointment as President of Respironics Hospital Group, being part of the top management team of the leading US CPAP maker. Following the takeover of Respironics in 2008 by global Philips corporation, Derek held positions as Senior Vice President of Respiratory and Perinatal Care for Philips Healthcare, as Senior Vice President of Therapeutic Care and finally as CEO Hospital to Home Business division at Philips Healthcare.

**Company Secretary**

**Terence Flitcroft B Comm CA SF FIN**

Terence has been Company Secretary since 1995.

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

**Board Member's Directorships**

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

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

**Directors' Interests in Securities**

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

| Director | Shares | Options over Ordinary Shares |
|---|---|---|
| Peter Neustadt * | 3,236,512 | 425,000 |
| Robert Scherini * | 91,484 | - |
| Lee Ausburn * | 137,096 | - |
| Hamish Corlett * ** | 11,407,561 | 400,000 |

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

** Appointed 1st May 2018

**Meetings of Directors**

The number of meetings of the Company's Board of Directors and each board committee held during the year to 30 June 2018 and the number of meetings attended by each director were:

| | DIRECTORS' MEETINGS | | COMMITTEE MEETINGS: AUDIT COMMITTEE | | COMMITTEE MEETINGS: REMUNERATION COMMITTEE | |
|---|---|---|---|---|---|---|
| | Number eligible to attend | Number Attended | Number eligible to attend | Number Attended | Number eligible to attend | Number Attended |
| Peter Neustadt | 12 | 12 | 3 | 3 | 1 | 1 |
| Robert Scherini | 12 | 12 | 3 | 3 | 1 | 1 |
| Lee Ausburn | 12 | 11 | - | - | 1 | 1 |
| Hamish Corlett | 2 | 1 | - | - | 1 | 1 |

**Indemnifying Directors or Officers**

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

- indemnified by the Company to the full extent permitted by law against all liabilities sustained or incurred through acting as a Director (under the Corporations Act the indemnity does not extend to a liability owed to the Company or its related bodies corporate, or which arises out of conduct involving a lack of good faith, or is for a pecuniary penalty order under section 1317G of the Corporations Act or a compensation order under section 1317H of the Corporations Act);
- indemnified by the Company to the full extent permitted by law against legal costs and expenses incurred in defending an action for a liability incurred as an officer of the Company (under the Corporations Act the indemnity does not extend to costs incurred in circumstances where the Director is found to have a liability for which the Director cannot be indemnified, or costs of defending or resisting criminal proceedings in which the Director is found guilty or defending proceedings brought by ASIC or a liquidator for a court order where the court holds that the grounds for making the order are established, or costs of proceedings seeking relief for the Director under the Corporations Act where the court denies relief);
- entitled to a loan to meet the costs of defending or responding to any such claim or proceeding; and
- entitled to have the Company maintain and pay premiums in respect of directors' and officers' insurance. Premiums paid in respect of this insurance were $112,489.

**Corporate Governance**

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

Please refer to the Corporate Governance Statement of SomnoMed Limited on our website for more information https://somnomed.com/au/about-us/investor-centre-old/corporate-governance.

**Environmental regulations**

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

**Proceedings on Behalf of Company**

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

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

**Options**

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

| Grant Dates | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 25 November 2015 | 31 October 2018 | $2.64 | 250,000 |
| 1 September 2016 | 31 August 2019 | $3.39 | 200,000 |
| 7 October 2016 | 30 September 2021 | $3.44 | 300,000 |
| 24 November 2016 | 31 October 2019 | $3.78 | 175,000 |
| 4 October 2017 | 30 September 2020 | $3.61 | 300,000 |
| 22 March 2018 | 31 August 2019 | $4.00 | 400,000 |
| | | | **1,625,000** |

In addition to the above 1,625,000 options, a total of 4,093,834 shares issued by the Company pursuant to the Company's Executive Share and Option Plan have been treated as share based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards (refer Note 15 to the accompanying accounts).

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

| Option holder | Exercise price | Options |
|---|---|---|
| Derek Smith | $3.61 | 300,000 |
| | | **300,000** |

A total of 250,000 options have been exercised since the end of the last financial year.

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

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

## REMUNERATION REPORT

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

### Remuneration Policy

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

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

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Revenue | $30,274,596 | $34,437,903 | $44,084,153 | $49,326,974 | $63,610,048 |
| Net profit/(loss) | $214,956 | $533,761 | $67,185 | ($4,163,331) | ($10,711,241) |
| Share price at year end | $1.46 | $2.65 | $3.59 | $3.06 | $2.20 |
| Earnings per share (cents) | 0.95 | 1.26 | 0.34 | (6.23) | (15.50) |

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

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

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

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

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

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

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

### Performance Based Remuneration

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

**Performance Based Remuneration (continued)**

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

KPIs relating to short-term incentives (STIs) relate to performance benchmarks against measured targets designed to reward superior performance and are only rewarded when performance hurdles are met. In most cases this is linked to the achievement of the annual budget for a certain region, country or functional area. However, the benchmarks for STI hurdles might vary from year to year. The current year performance hurdles include the measurement of performance against financial budgets, successful opening of RSS outlets and a number of other items relevant to the particular employee's role.

The major long-term incentives (LTIs) for employees are related to equity and options granted to senior executives pursuant to the Company's Executive Share and Option Plan. Employees are invited to participate in this plan on an annual basis. The Remuneration Committee sets the overall quantum of shares to be issued and approves the allocation to individual on the basis of recommendations it receives from the CEO and the heads of regional and global departments. The performance of the executive in the financial year gone by is an important factor which is taken into consideration in determining the allocation to each employee, however, the main criteria are the importance of the role an individual plays and his or her value to the future development of our company. Vesting conditions apply to units issued under the Company's Employee Share Trust and units vest progressively over a number of years. Units issued in the 2017/18 financial year vest over a period of four years – half at the third anniversary from the date of issue and the other half on the fourth anniversary. This provides employees with a long-term incentive to continue to add value to the Company's operations and remain employed with SomnoMed.

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

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

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

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

**Performance Income as a proportion of Total Remuneration**

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

All senior executives' remuneration for the year ended 30 June 2018 had a fixed component and a variable component of their overall remuneration, with the variable part of their remuneration paid subject to a performance condition.

**Employment Contracts of Directors and Senior Executives**

The employment conditions of specified executives are formalised in contracts of employment or its wholly owned subsidiary. All executives are permanent employees of SomnoMed. Each non fixed term contract contract states it can be terminated by the Company by giving up to six months' notice and by paying a redundancy of between three to six months. For fixed term contracts refer to Executives' Remuneration table (4) on page 17.

**Options issued as part of remuneration for the year ended 30 June 2018**

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

| Company Directors/ Executives | Granted Number | Grant Date | Value per Option at Grant Date | Exercise Price | Earliest Exercise Date | Last Exercise Date |
|---|---|---|---|---|---|---|
| Derek Smith | 300,000 | 4 October 2017 | $1.648 | $3.61 | 1 October 2020 | 30 September 2022 |

**Directors' remuneration**

The following table discloses the remuneration of Directors of the Company for the year ended 30 June 2018, as specified for disclosure by AASB 124. The information contained in this table is audited.

| | Short-term Benefits | | Post-Employment Benefits | Long-term Benefits | | |
|---|---|---|---|---|---|---|
| **Director** | **Salary & Fees $** | **Other $** | **Superannuation $** | **Termination Benefits $** | **Equity Settled Share Based Payment** | **Total $** |
| Peter Neustadt (1) | | | | | | |
| - 2017 | 238,900 | - | - | - | 187,792 | 426,692 |
| - 2018 (2) | 137,917 | - | - | - | 172,251 | 310,168 |
| Robert Scherini | | | | | | |
| - 2017 | 61,800 | - | - | - | - | 61,800 |
| - 2018 | 63,648 | - | - | - | - | 63,648 |
| Lee Ausburn (3) | | | | | | |
| - 2017 | 61,800 | - | - | - | - | 61,800 |
| - 2018 | 63,665 | - | - | - | - | 63,665 |
| Hamish Corlett (4) | | | | | | |
| - 2017 | - | - | - | - | - | - |
| - 2018 | 10,608 | - | - | - | - | 10,608 |
| **TOTAL 2017** | **326,500** | **-** | **-** | **-** | **187,792** | **550,292** |
| **TOTAL 2018** | **275,838** | **-** | **-** | **-** | **172,251** | **448089** |

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

(2) Relates to share option expense for options issued to P Neustadt Holdings Pty Limited in 2016

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

(4) Mr Corlett was appointed Director of the Company on 1st May 2018.

### Shareholdings

Number of shares held by the Directors and Key Management Personnel, including shares held by associated entities.

| | Balance 1.7.17 | Held at date of appointment | Issued/ Acquired | Exercise of Options | Balance 30.6.18 |
|---|---|---|---|---|---|
| Peter Neustadt | 2,806,705 | - | 179,807 | 250,000 | 3,236,512 |
| Lee Ausburn | 133,919 | - | 3,177 | - | 137,096 |
| Robert Scherini | 86,400 | - | 5,084 | - | 91,484 |
| Hamish Corlett(1) | - | 10,335,056 | 1,072,505 | - | 11,407,561 |
| Derek Smith | - | - | - | - | - |
| Jim Evanger | - | - | - | - | - |
| Kien Nguyen(2) | 925,000 | - | 60,000 | - | 985,000 |
| Neil Verdal-Austin(3) | 820,000 | - | 85,000 | - | 905,000 |
| Martin Weiland(4) | 330,000 | - | 80,000 | - | 410,000 |
| | 5,102,024 | 10,335,056 | 1,485,573 | 250,000 | 17,172,653 |
| Less shares issued under the Employee Share Trust Plan (2) (3) & (4) | (2,615,000) | - | (225,000) | - | (2,840,000) |
| | 2,487,024 | 10,335,056 | 1,260,573 | 250,000 | 14,332,653 |

(1) Appointed 1st May 2018.

(2) 60,000 (2017: 90,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 15). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(3) 85,000 (2017: 100,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 15). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(4) 80,000 (2017: 80,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 15). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

### Options and Rights Holdings

**Number of options held by the Directors and Key Management Personnel, including options held by associated entities**

| | Balance 1.7.17 | Held at date of appointment | Granted as Remuneration | Exercised or Lapsed | Balance 30.6.18 | Total Vested 30.6.18 | Total Exercisable | Total Un-exercisable |
|---|---|---|---|---|---|---|---|---|
| Peter Neustadt (1) | 675,000 | - | - | (250,000) | 425,000 | 425,000 | 425,000 | - |
| Robert Scherini | - | - | - | - | - | - | - | - |
| Lee Ausburn | - | - | - | - | - | - | - | - |
| Hamish Corlett(2) | | 400,000 | - | - | 400,000 | 400,000 | 400,000 | - |
| Derek Smith(3) | 500,000 | - | 300,000 | - | 800,000 | 200,000 | 200,000 | 600,000 |
| Jim Evanger | - | - | - | - | - | - | - | - |
| Neil Verdal-Austin | - | - | - | - | - | - | - | - |
| Kien Nguyen | - | - | - | - | - | - | - | - |
| Martin Weiland | - | - | - | - | - | - | - | - |
| Total | 1,175,000 | 400,000 | 300,000 | (250,000) | 1,625,000 | 1,025,000 | 1,025,000 | 600,000 |
| Issued shares treated as options in these accounts(4) (refer table above and Note 15) | | | | | | | | |
| Kien Nguyen | 925,000 | - | 60,000 | - | 985,000 | 333,333 | 333,333 | 651,667 |
| Neil Verdal-Austin | 660,000 | - | 85,000 | - | 745,000 | 275,000 | 275,000 | 470,000 |
| Martin Weiland | 330,000 | - | 80,000 | - | 410,000 | 133,333 | 133,333 | 276,667 |
| Total | 3,090,000 | 400,000 | 525,000 | (250,000) | 3,765,000 | 1,766,666 | 1,766,666 | 1,998,334 |

(1) Held by Belgove Pty Limited or its nominee or P Neustadt Holdings Pty Ltd, companies associated with Dr Peter Neustadt.

(2) Held by TDM asset Management Pty Limited, a company associated with Mr Hamish Corlett.

(3) Mr Derek Smith was issued with 300,000 options with an exercise price of $3.44 per share on 4th October 2017. Fair value of these options calculated by using a Black and Scholes option pricing model was $1.648 per option.

(4) The options were issued by the Company pursuant to the Company's Executive Share and Option Plan and have been treated as share based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. These options were issued on 31 October 2017 at an exercise price of $3.61 per share. These options expire on 31 October 2022 and are exercisable prior to that time, subject to vesting conditions being satisfied. Fair value of these options calculated by using a Black and Scholes option pricing model was $1.532 per option.

### Loans to key management personnel

Details of loans to key management personnel are reflected in Note 26(d).

### Executives' remuneration

The following table discloses the remuneration of the specified executives of the company and the Consolidated Entity for the year ended 30 June 2018, as specified for disclosure by AASB 124. The information in this table is audited.

| | Short-term Benefits | | | Post-Employment Benefits | Long-term Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| **Executive** | **Salary & Fees** | **Bonuses** | **Other** | **Superannuation** | **Long service leave** | **Share-based Payment (1)** | **Termination Benefits** | **Total** |
| Derek Smith(2) | | | | | | | | |
| - 2018 | 582,072 | - | 22,922 | - | - | 136,450 | | 741,444 |
| - 2017 | 547,533 | - | - | - | - | 294,788 | - | 842,321 |
| Neil Verdal-Austin(4) | | | | | | | | |
| - 2018 | 366,000 | - | | 37,937 | 10,395 | 57,552 | | 471,884 |
| - 2017 | 366,000 | 33,333 | - | 34,770 | 12,789 | 101,794 | - | 548,686 |
| Jim Evanger(3) | | | | | | | | |
| - 2018 | 439,788 | - | 19,131 | - | - | - | - | 458,919 |
| - 2017 | 409,482 | 170,384 | 10,915 | - | - | - | - | 590,781 |
| Kien Nguyen | | | | | | | | |
| - 2018 | 517,397 | - | 19,536 | - | - | 16,752 | - | 553,685 |
| - 2017 | 531,067 | - | 20,354 | - | - | 60,548 | - | 611,969 |
| Martin Weiland (4) | | | | | | | | |
| - 2018 | 392,973 | 98,628 | 21,267 | | | 21,900 | | 534,768 |
| - 2017 | 334,308 | 58,140 | 20,185 | - | - | 68,770 | - | 481,402 |
| **TOTAL 2018** | **2,298,230** | **98,628** | **82,856** | **37,937** | **10,395** | **232,654** | | **2,760,700** |
| **TOTAL 2017** | **2,188,391** | **261,856** | **51,453** | **34,770** | **12,789** | **525,900** | | **3,075,159** |

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

(2) Commenced employment 1st September 2016.

(3) Commenced employment 1st August 2016.

(4) These executives have agreed to a fixed term contract until 30 June 2020. The termination payment is equivalent to one month's total remuneration for every year the executive was employed by the employer, up to a maximum amount equal to 12 months total remuneration. These contracts have a notice of termination of 6 months with a restraint of trade condition of 12 months from termination date. This restraint covers any business same or similar on a worldwide basis.

For the year ended 30 June 2018 the Company had five (2017 – five) persons employed who were deemed to be specified executives.

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

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

The terms and conditions relating to options granted as remuneration during the year to key management personnel are disclosed in Note 24.

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

| Name | Fixed remuneration 2018 | Fixed remuneration 2017 | At risk – STI 2018 | At risk – STI 2017 | At risk – LTI 2018 | At risk – LTI 2017 |
|---|---|---|---|---|---|---|
| *Non-Executive Directors:* | | | | | | |
| Peter Neustadt | 44% | 56% | 0% | 0% | 56% | 44% |
| Robert Scherini | 100% | 100% | 0% | 0% | 0% | 0% |
| Lee Ausburn | 100% | 100% | 0% | 0% | 0% | 0% |
| Hamish Corlett* | 100% | - | 0% | - | 0% | - |
| *Other Key Management Personnel:* | | | | | | |
| Derek Smith | 82% | 48% | 0% | 26% | 18% | 26% |
| Neil Verdal-Austin | 88% | 68% | 0% | 15% | 12% | 17% |
| Jim Evanger | 100% | 68% | 0% | 32% | 0% | 0% |
| Kien Nguyen | 97% | 71% | 0% | 21% | 3% | 8% |
| Martin Weiland | 78% | 71% | 18% | 15% | 4% | 14% |

* Mr Corlett was appointed a Director of the Company on 1st May 2018

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

| Name | Cash bonus paid/payable 2018 | Cash bonus paid/payable 2017 | Cash bonus forfeited 2018 | Cash bonus forfeited 2017 |
|---|---|---|---|---|
| *Non-Executive Directors:* | | | | |
| Peter Neustadt | - | - | - | - |
| Robert Scherini | - | - | - | - |
| Lee Ausburn | - | - | - | - |
| Hamish Corlett | - | - | - | - |
| *Other Key Management Personnel:* | | | | |
| Derek Smith | 0% | 0% | 100% | 100% |
| Neil Verdal-Austin | 0% | 37% | 100% | 63% |
| Jim Evanger | 0% | 85% | 100% | 15% |
| Kien Nguyen | 0% | 0% | 100% | 100% |
| Martin Weiland | 100% | 80% | 0% | 20% |

* Mr Corlett was appointed a Director of the Company on 1st May 2018

**This concludes the Remuneration Report which has been audited.**

**Other Information**

**Non-audit Services**

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

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

Fees of $144,000 (2017: $297,000) for tax services were paid/payable to the external auditors during the year ended 30th June 2018.

**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30th June 2018 is set out on page 66 of this annual report.

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

Peter Neustadt

Chairman

19th September 2018

# SOMNOMED LIMITED

**ACN 003255221**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

| | NOTE | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Revenue from sale of goods and services, net of discounts | 5 | 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 | 5 | 195,963 | 124,236 |
| Net fair value loss on contingent consideration payable | 30 | (51,997) | (32,551) |
| Share based payments | 25c | (718,099) | (805,502) |
| Depreciation and amortisation | | (1,676,506) | (1,232,311) |
| Impairment of goodwill | 12 | (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** | 6 | **(9,096,001)** | **(3,763,996)** |
| Income tax expense attributable to operating profit | 7 | (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 period is attributable to: | | | |
| Owners of SomnoMed Limited | | (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) | 22 | (15.50) | (6.23) |
| Diluted earnings per share (cents per share) | 22 | (15.50) | (6.23) |

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

# SOMNOMED LIMITED

**ACN 003255221**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

| | NOTE | 2018 | 2017 |
|---|---|---|---|
| | | **$** | **$** |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 8 | 13,383,389 | 14,210,321 |
| Trade and other receivables | 9 | 13,581,962 | 10,196,708 |
| Inventories | 10 | 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 | 11 | 6,610,154 | 4,491,423 |
| Intangible assets | 12 | 6,860,268 | 6,632,530 |
| Deferred tax asset | 7c | 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 | 13 | 8,380,629 | 7,882,837 |
| Lease liabilities | 24 | 398,160 | 69,295 |
| Provisions | 14 | 2,024,049 | 1,547,355 |
| Current tax liability | | 737,400 | 449,665 |
| Total Current Liabilities | | 11,540,238 | 9,949,152 |
| | | | |
| **Non-Current Liabilities** | | | |
| Lease liabilities | 24 | 1,036,841 | 53,250 |
| Provisions | 14 | 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 | 16 | 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
**ACN 003255221**
# 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 2016 | 44,552,216 | 4,371,541 | (15,795,652) | 33,128,105 | (439,477) | 32,688,628 |
| (Loss)/profit 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 |

| | 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 |

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

# SOMNOMED LIMITED

**ACN 003255221**

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2018

| | NOTE | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **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 | 21a | (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 | 21b | 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** | 20 | 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 and incorporated 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 financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001 as appropriate for profit oriented entities. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

**b. Basis of measurement**

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

**c. Functional and presentation currency**

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

**d. Use of judgements and estimates**

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

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

*Key sources of estimation uncertainty*

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

*Share-based payment transactions*

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

*Goodwill and other indefinite life intangible assets*

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

*Income tax*

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

**2. BASIS OF PREPARATION (continued)**

**d. Use of judgements and estimates (continued)**

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

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

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Recoverability of the deferred tax assets is evaluated at each reporting date by review of future budgets and forecasts which includes predicted future tax profits. The deferred asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Employee benefits provision*

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

*Lease make good provision*

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

*Warranty provision*

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

*Business combinations*

Business combinations are initially accounted for on a provisional basis.

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

*Fair value measurement hierarchy*

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### a. Basis of Consolidation

*Controlled entities*

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

*Transactions eliminated on consolidation*

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

*Business combinations*

Business combinations occur where an acquirer obtains control over one or more businesses.

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

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

*Goodwill*

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of profit or loss and other comprehensive income.

### b. Foreign Currency

*Foreign currency transactions*

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

*Financial statements of foreign operations*

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Financial Instruments**

*Derivative Financial Instruments*

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

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

*Non-derivative financial assets and liabilities*

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

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

Accounting for finance income is discussed in accounting policy of Note 28.

*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.

**d. Impairment**

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy of Note 10) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income of profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of profit or loss and other comprehensive income of profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

*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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d. Impairment (continued)**

*Other Assets*

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

*Reversals of Impairment*

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

**e. 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)**

**e. 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.

**f. 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.

**g. 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h. 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.

## 5. REVENUE

*Significant Accounting Policies*

*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.

*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.

| | **2018** | **2017** |
|---|---:|---:|
| | **$** | **$** |
| Interest received | 195,963 | 124,236 |
| Revenue from sale of goods, net of discounts | 63,610,048 | 49,326,974 |
| | 63,806,011 | 49,451,210 |

## 6. LOSS FOR THE YEAR

*Significant Accounting Policies*

*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.

## 6. LOSS FOR THE YEAR (continued)

*Significant Accounting Policies*

*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.

*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.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Loss before income tax includes the following specific expenses: | | |
| Operating lease rentals | 2,222,941 | 1,225,848 |
| Employee benefits expense | 27,291,449 | 19,951,308 |
| Depreciation | 1,566,778 | 1,123,174 |
| Amortisation of intellectual property | 109,728 | 109,140 |
| Research and development expenditure | 934,720 | 889,468 |

## 7. INCOME TAX EXPENSE

*Significant Accounting Policies*

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 realised. 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.

**7. INCOME TAX EXPENSE (continued)**

| | NOTE | 2018 $ | 2017 $ |
|---|---|---|---|
| a. The components of tax expense comprise: | | | |
| Current tax | | 1,120,364 | 301,133 |
| Deferred tax | 7d | 494,876 | 98,202 |
| | | 1,615,240 | 399,335 |
| b. The prima facie tax on profit before income tax is reconciled to the income tax expense/(benefit) as follows: | | | |
| Prima facie income tax expense calculated using the Australian tax rate of 30% (2017: 30%) | | (2,728,800) | (1,129,199) |
| (Increase)/decrease in income tax expense due to non-(deductible)/assessable and other items | | 4,344,040 | 1,528,534 |
| Income tax expense | | 1,615,240 | 399,335 |
| c. Deferred tax assets<br>Recognised deferred tax assets | | | |
| Plant and equipment | | (27,127) | (148,276) |
| Accruals | | 416,580 | 600,703 |
| Provisions | | 50,642 | 92,330 |
| Deferred revenue | | 55,130 | 80,702 |
| Tax losses carried forward | | 2,285,446 | 2,843,303 |
| Deferred tax assets | | 2,780,670 | 3,468,762 |

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

| | NOTE | 2018 $ | 2017 $ |
|---|---|---|---|
| d. Movement in temporary differences and tax losses during the year | | | |
| Carrying amount at beginning of financial year | | 3,468,762 | 3,062,237 |
| Recognised in the statement of profit or loss and other comprehensive income | 7a | (494,876) | (98,202) |
| Underprovision in respect of prior year | | - | 584,103 |
| Foreign exchange adjustment | | (193,216) | (79,376) |
| Carrying amount at end of financial year | | 2,780,670 | 3,468,762 |
| e. Deferred tax assets not brought to account | | | |
| Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 3(d) occur | | | |
| Tax losses | | 623,300 | 1,196,997 |
| Temporary differences | | 2,611,204 | 2,519,081 |

**7. INCOME TAX EXPENSE (continued)**

| *Franking credits* | **2018** **$** | **2017** **$** |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% | 33,447 | 33,447 |

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

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

f. 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 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 half 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.

**8. CASH AND CASH EQUIVALENTS**

*Significant Accounting Policies*

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

| | | |
|---|---|---|
| Cash at bank and on deposit | 13,383,389 | 14,210,321 |
| | 13,383,389 | 14,210,321 |

**9. TRADE AND OTHER RECEIVABLES**

*Significant Accounting Policies*

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy 3(d)).

| **Current** | | |
|---|---|---|
| Trade receivables | 10,676,477 | 6,884,771 |
| Less provision for impairment | (272,028) | (266,242) |
| | 10,404,449 | 6,618,529 |
| Other receivables | 3,177,513 | 3,578,179 |
| | 13,581,962 | 10,196,708 |

## 10. INVENTORIES

*Significant Accounting Policies*

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.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Raw materials and consumables | 2,002,565 | 1,947,565 |

## 11. PROPERTY, PLANT AND EQUIPMENT

*Significant Accounting Policies*

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 3(d)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

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 |

| | 2018 | 2017 |
|---|---|---|
| **Plant and Equipment** | **$** | **$** |
| Property, plant and equipment –at cost | 11,714,049 | 8,187,460 |
| Accumulated depreciation | (5,341,114) | (3,985,597) |
| | 6,372,935 | 4,201,863 |
| | | |
| **Leasehold Improvements** | | |
| At cost | 505,790 | 398,689 |
| Accumulated amortisation | (268,571) | (109,129) |
| | 237,219 | 289,560 |
| **Total plant and equipment** | **6,610,154** | **4,491,423** |

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

Movements in the carrying amounts of plant and equipment during the current financial year:

| | Leasehold improvements | Plant and equipment | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Consolidated group:** | | | |
| Balance at 1 July 2017 | 306,463 | 3,266,502 | 3,572,965 |
| Additions | 92,227 | 2,239,638 | 2,331,865 |
| Disposals | (5,813) | (733,109) | (738,922) |
| Revaluation increments/(decrements) | - | 668,224 | 668,224 |
| Depreciation expense | (75,856) | (1,047,318) | (1,123,174) |
| FX impact | (27,461) | (192,074) | (219,535) |
| **Balance at 30 June 2017** | **289,560** | **4,201,863** | **4,491,423** |
| Additions | 9,765 | 3,574,576 | 3,584,341 |
| Disposals | - | (152,510) | (152,510) |
| Revaluation increments/(decrements) | - | 147,820 | 147,820 |
| Depreciation expense | (58,952) | (1,507,826) | (1,566,778) |
| FX impact | (3,154) | 109,012 | 105,858 |
| **Balance at 30 June 2018** | **237,219** | **6,372,935** | **6,610,154** |

Included in property, plant and equipment are capitalised lease incentives of $246,821 (2017: $249,954). Lease incentives are recognised as an asset and a liability in the financial statements and amortised over the term of the lease.

## 12. INTANGIBLE ASSETS

*Significant Accounting Policies*

*Goodwill*

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 3(d)).

*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.

## 12. INTANGIBLE ASSETS (continued)

*Amortisation*

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

Patents 10 years

Product development expenditure 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.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| 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** | | |
| 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 |

**12. INTANGIBLE ASSETS (continued)**

| **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** | | |
|---|---|---|
| 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.

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 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.

| | | |
|---|---|---|
| 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 |

**Impairment Test**

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

European division

Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the cash generating unit to materially exceed its recoverable amount.

The European cash generating unit (CGU) has a revenue growth per annum range of between 13% (2017: 10%) and 40% (2017: 45%) due to the differing stages of development these various markets are in. More established markets are experiencing lower growth rates than those in their infancy and considered to still be developing when it comes to Sleep Disordered Breathing treatment. The average growth of total costs per annum ranges between 11% (2017: 9%) and 23% (2017: 21%) due to the differing costs of business in different European markets. A similar range (12-19%) (2017: 7-14%) is seen for the average growth of operating costs per annum. The average discount rate used was 9% (2017: 8.2%). Based on the above, no impairment has been applied as the carrying amount of goodwill did not exceed its recoverable amount for the European business segment.

## 12. INTANGIBLE ASSETS (continued)

Asia Pacific Division

Goodwill in South Korea was impaired to $135,000 (2017: $135,000), representing 2% (2017: 2%) of total goodwill at 30 June 2018. The growth of revenue and expenses is expected to be 77% and 36% per annum respectively, with a discount rate of 16% applied in the valuation. The growth of revenue and expenses varies due to the stage of development the market is in.

The recoverable amount of SomnoMed Korea exceeded the carrying amount by $962,174. The impairment test indicated that no impairment was required.

North America Division

Goodwill in relation to the acquisition of intangible assets in SomnoMed Canada Inc. was impaired by $138,563, (2017: $274,036) representing 2 per cent (2017: 4%) of total goodwill at 30 June 2018. The growth of revenue and expenses is expected to be 17% (2017: 25%) and 14% (2017: 11%) respectively per annum with a discount rate of 16% (2017:16%) applied in the valuation. The growth of revenue and expenses varies due to the stage of development the market is in.

**Sensitivity**

(a) Revenue would need to decrease by 7-49% (2017: 3-79%) for different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase by 6-182% (2017: 8-307%) for the different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

The following key assumptions were used for each CGU in the year of 2018:

| | Decrease in revenue | Increase in discount rate |
|---|---|---|
| **European division** | | |
| SomnoMed Germany GmbH | 49% | 182% |
| SomnoMed Nordic AB | 28% | 142% |
| SomnoMed France | 42% | 40% |
| SMH Biomaterial AG | 7% | 6% |
| **Asia Pacific Division** | | |
| SomnoMed Korea | 21% | 23% |
| **North America Division** | | |
| SomnoMed Canada | -* | -* |

* The goodwill of SomnoMed Canada has been impaired. See above for further details

## 13. TRADE AND OTHER PAYABLES

*Significant Accounting Policies*

Trade and other payables are stated at amortised cost.

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| CURRENT | | |
| Trade payables, other payables and accruals | 8,084,178 | 7,545,124 |
| Income received in advance | 49,627 | 100,100 |
| Deferred rent | 246,824 | 237,613 |
| | 8,380,629 | 7,882,837 |

## 14. PROVISIONS

*Significant Accounting Policies*

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

*Warranties*

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rate, respective product populations and average costs of returns and repairs. Warranty periods on MAS devices are dependent on individual market and regulatory conditions in different countries.

*Make good lease costs*

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| CURRENT | | |
| Warranty | 229,825 | 210,801 |
| Lease make good | 67,212 | 67,212 |
| Employee entitlements | 1,727,012 | 1,269,342 |
| | 2,024,049 | 1,547,355 |

Amounts not expected to be settled within the next 12 months

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

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

| | | |
|---|---|---|
| Employee benefits obligation expected to be settled after 12 months | 402,685 | 417,905 |
| NON CURRENT | | |
| Employee entitlements | 351,778 | 254,839 |

| **Movements in Provisions 2018** | **Warranty**<br>**$** | **Lease make good**<br>**$** | **Employee entitlement**<br>**$** |
|---|---|---|---|
| Balance at the beginning of the year | 210,810 | 67,212 | 1,524,181 |
| Additional provisions recognised | 13,681 | - | 1,031,825 |
| Amounts used | (1904) | - | (529,797) |
| Reversal | - | - | - |
| Effect of movement in foreign exchange | 7,247 | - | 52,581 |
| Balance at end of year | 229,825 | 67,212 | 2,078,790 |

| **15. ISSUED CAPITAL** | **2018** **$** | **2017** **$** |
|---|---|---|
| Issued and fully paid ordinary shares | | |
| 62,205,668 (2017: 57,867,419) ordinary shares | 54,572,473 | 51,282,286 |
| Balance of issued capital at the beginning of year | | |
| 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 | 4,467,741 | - |
| - 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 | | |
| - 900,334 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) |
| - 1,134,000 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) |
| - 40,000 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).

| | **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 |

## 15. ISSUED CAPITAL (continued)

*Significant Accounting Policies*

*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.

*Capital Risk 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.

## 16. RESERVES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Share based payment reserve | 4,029,264 | 3,311,165 |
| Foreign currency translation reserve | 2,077,393 | 4,076,568 |
| Capital reserve | 28,173 | 28,173 |
| | 6,134,830 | 4,415,906 |

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

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

The capital reserve records profits which will be distributed back to investors in SMH Biomaterial AG, an entity which SomnoMed Ltd owns 100% (2017: 100%).

## 17. REMUNERATION OF AUDITORS

| | | |
|---|---|---|
| Remuneration of BDO East Coast Partnership (Australia): | | |
| - Auditing or reviewing the financial report | 109,000 | 100,000 |
| - Other services (taxation) | 33,000 | 160,000 |
| Remuneration of other auditors (paid to BDONetwork firms) | | |
| - Auditing or reviewing the financial reports of subsidiaries | 294,000 | 252,000 |
| - Other services (taxation) | 111,000 | 137,000 |
| Total auditors’ remuneration included in operating result | 547,000 | 649,000 |

## 18. SEGMENT OPERATIONS

*Significant Accounting Policies*

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.

### Primary Reporting – Business Segments

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

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

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

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

### 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.

**18. SEGMENT OPERATIONS (continued)**

**Secondary Reporting – Geographical 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)** |

| **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)** |

## 19. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES

### (a) Details of controlled entities are reflected below

| Company | Country of Incorporation | Interest % 2018 | Interest % 2017 |
|---|---|---|---|
| SomnoMed Limited | Australia | | |
| **Entities controlled by SomnoMed Limited** | | | |
| SomCentre Pty Limited | Australia | 100% | 100% |
| SomnoMed, Inc. | USA | 100% | 100% |
| SomnoDent Pty Limited | Australia | 100% | 100% |
| SomnoMed Pte Ltd | Singapore | 100% | 100% |
| SomnoMed AG | Switzerland | 100% | 100% |
| SomnoMed Corporation Japan | Japan | 100% | 100% |
| SomnoMed Nordic AB | Sweden | 100% | 100% |
| SomnoMed Philippines Inc. | Philippines | 100% | 100% |
| SomnoMed Netherlands BV | Netherlands | 100% | 100% |
| SomnoMed France | France | 92.9% | 92.9% |
| Goedegebuure Slaaptechniek BV[1] | Netherlands | 100% | 100% |
| SomnoMed Germany GmbH | Germany | 100% | 100% |
| SomnoMed Service GmbH | Germany | 100% | 100% |
| SMH Biomaterial AG | Switzerland | 100% | 100% |
| SomnoMed Korea | South Korea | 100% | 100% |
| SomnoMed UK Limited | UK | 100% | 100% |
| SomnoMed Spain SL | Spain | 100% | 100% |
| SomnoMed Italy S.r.L | Italy | 100% | 100% |
| SomnoMed Canada Inc. | Canada | 100% | 100% |
| SomnoMed Taiwan Limited Company | Taiwan | 100% | 100% |
| Renew Sleep Solutions, Inc. | USA | 81.9% | 81.9% |
| SomnoMed Finance, Inc. | USA | 100% | 100% |

### (b) Acquisition of Goedegebuure Slaaptechniek BV

In January 2012 SomnoMed Limited entered into a contract to acquire the Dutch oral appliance distribution company Goedegebuure Staaptechniek B.V. with an upfront payment of 50% and the subsequent 50% to be paid over a period of 5 years in four annual portions commencing in 2014. In September 2017 SomnoMed Limited made a payment of $49,308 (EUR 33,740) with 50% in cash and 50% in SomnoMed shares (6,592 shares at the price of $3.74).

| **20. RECONCILIATION OF CASH** | **2018 $** | **2017 $** |
|---|---|---|
| Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows: | | |
| Cash at bank and on deposit and money market securities | 13,383,389 | 14,210,321 |
| | 13,383,389 | 14,210,321 |

## 21. CASH FLOW INFORMATION

### a. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | | |
|---|---|---|
| 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) |

### b. CHANGES IN LIABILITIES ARISING FROM FINANCE ACTIVITIES

| | **1 July 2017** | **Cash flows** | **Non-cash changes** | | **30 June 2018** |
|---|---|---|---|---|---|
| | | | **Intercompany** | **Other** | |
| | $ | $ | $ | $ | $ |
| Lease liabilities | 122,545 | (237,115) | - | 1,549,571 | 1,435,001 |

## 22. EARNINGS PER SHARE

*Significant Accounting Policies*

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.

| | 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 $2.64 and $4.00 per share and converts to one ordinary share | 1,625,000 | 1,175,000 |

## 23. CAPITAL AND LEASING COMMITMENTS

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Operating Lease Commitments** | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable | | |
| — not later than 1 year | 14,971,073 | 2,110,762 |
| — later than 1 year but not later than 5 years | 42,657,553 | 5,967,597 |
| — later than 5 years | 2,060,121 | 1,636,322 |
| | 59,688,747 | 9,714,681 |

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

## 24. 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.

## 25. SHARE BASED PAYMENTS

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

| | 2018 # | 2017 # |
|---|---|---|
| Opening balance | 3,628,834 | 4,116,500 |
| Exercised during the year | (35,000) | (1,014,166) |
| Shares issued and treated as options in these accounts (refer Note 15) | 625,000 | 526,500 |
| Shares issued and treated as options in previous accounts now treated as shares (refer Note 15) | (125,000) | - |
| Closing Balance | 4,093,834 | 3,628,834 |

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

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

### (c) Options

| | 2018 | 2017 |
|---|---|---|
| Shares treated as options in accounts (refer Note 15) | 4,093,834 | 3,628,834 |
| Exercised during the year | 4,093,834 | 3,628,834 |

The options and shares issued under the Employee Share and Option plan outstanding at 30 June 2018 had a weighted average exercise price of $3.52 (2017: $3.08) and a weighted average remaining contractual life of 2.01 years (2017: 2.16 years). Exercise prices range from $2.64 to $3.78 in respect of options outstanding at 30 June 2018 (2017: $2.35 to $3.78 range).

The weighted average fair value of the options granted during the year was $1.57 (2017: $1.39).

**25. SHARE BASED PAYMENTS (continued)**

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

| | 2018 | 2017 |
|---|---|---|
| Weighted average exercise price | $3.61 | $3.4812 |
| Weighted average life of the option | 5 years | 4.39 years |
| Underlying share price | $3.69-$3.85 | $3.39-$3.78 |
| Expected share price volatility | 45.00 | 45.00 |
| Risk free interest rate | 1.50% | 2.50% |

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

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

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

Included under share and option expense in the statement of profit or loss and other comprehensive income is $718,099 (2017: $805,502), that relates, in full, to equity-settled share-based payment transactions.

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

Please refer to the Remuneration Report.

**(e) Share based payments**

There were no other share-based payment arrangements in the year to 30 June 2018, other than shares and options issued to directors and executives pursuant to the Company's Executive Share and Option Plan as detailed in the Remuneration Report.

**26. EVENTS SUBSEQUENT TO BALANCE DATE**

In August 2018 it was decided to close eight centres in the Renew Sleep Solutions ("RSS") business before 1 October 2018. The directors believe that this should reduce RSS's losses from that date. The impact of these closures will be a reduction of significant expenditure relating to the operation and marketing of those centres and such savings are currently being quantified. Except for the closure of the abovementioned RSS centres, 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.

## 27. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

### (a) Controlled entities

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| The aggregate amount included in the profit before income tax for the Company that resulted from transactions with non-director related parties are: | | |
| Royalties | 3,191,521 | 1,464,631 |
| Revenue from provision of services | - | 818,993 |
| Reimbursement of marketing expenses | - | (1,551,980) |
| Interest income | 1,299,808 | 905,451 |
| The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are: | | |
| Current receivables | 41,926,920 | 29,905,077 |
| Less impairment | (5,279,540) | (3,495,836) |
| | 36,647,380 | 26,409,241 |

### (b) Director related entities

During the year consultancy fees of $137,917 (2017: $238,900) were paid/are payable to Belgove Pty Limited, a company associated with Dr Neustadt; $63,665(2017: $61,800) was paid to Leedoc Pty Limited, a company associated with Ms Ausburn and $10,608 (2017: $nil) was paid to TDM Asset Management Pty Limited, a company associated with Mr Corlett (as per Director's remuneration).

TDM Asset Management Pty Ltd

### (c) Transactions in securities of the Company

During the year directors or entities related to directors acquired under normal commercial terms shares or options in the Company as detailed in Note 24. Directors acquired these shares or options through the public offering, direct issue or on-market purchase.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **(d) Loans to key management personnel** | | |
| Balance beginning of the year | - | 570,500 |
| Loans advanced | - | - |
| Loans repaid | - | (570,500) |
| Interest charged – advance | - | - |
| Interest received | - | - |
| Balance end of the year | - | - |

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

## 28. KEY MANAGEMENT PERSONNEL COMPENSATION

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

| **Key Management Person** | |
|---|---|
| Derek Smith | Global Chief Executive Officer of SomnoMed Group |
| Neil Verdal-Austin | Chief Financial Officer and Executive Vice President Asia Pacific |
| Jim Evanger | Chief Executive Officer of Renew Sleep Solutions, Inc. |
| Kien Nguyen | Executive President – North America |
| Martin Weiland | Executive Vice President – Sales and Marketing Europe |

### (b) Compensation Practices and Key Management Personnel Compensation

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

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

### (b) Compensation Practices and Key Management Personnel Compensation (continued)

**Compensation**

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

| | **2018** **$** | **2017** **$** |
|---|---|---|
| Short-term employee benefits | 2,755,552 | 2,864,200 |
| Post-employment benefits | 37,937 | 34,770 |
| Other | 10,395 | 12,789 |
| Share-based payments | 404,905 | 713,692 |
| | 3,208,789 | 3,625,451 |

## 29. NON-CONTROLLING INTERESTS

Reconciliation

| | | |
|---|---|---|
| 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) |

## 30. FINANCIAL INSTRUMENTS

### Credit Risk

*Significant Accounting Policies*

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.

*Exposure to Credit Risk*

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Cash and equivalents | 13,383,389 | 14,210,321 |
| Trade receivables | 10,404,449 | 6,618,529 |
| Other receivables - current | 1,590,302 | 1,825,350 |
| | 25,378,140 | 22,654,200 |

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

| | | |
|---|---|---|
| North America | 6,661,380 | 3,587,702 |
| Europe | 3,255,783 | 2,599,212 |
| Asia Pacific | 487,286 | 431,615 |
| | 10,404,449 | 6,618,529 |

*Impairment Losses*

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

| | | |
|---|---|---|
| **Gross receivables** | | |
| Past due 0 – 30 | 6,912,947 | 5,932,272 |
| Past due 31 – 60 | 993,651 | 181,049 |
| Past due 60 – 90 | 610,912 | 106,786 |
| Past due 90 days and over | 2,158,967 | 664,664 |
| | 10,676,477 | 6,884,771 |
| Impairment | (272,028) | (266,242) |
| **Trade receivables net of impairment loss** | 10,404,449 | 6,618,529 |

**30. FINANCIAL INSTRUMENTS (continued)**

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Balance at 1 July | (266,242) | (122,238) |
| Impairment movement | 6,670 | (145,564) |
| Exchange effect | (12,456) | 1,560 |
| **Balance at 30 June** | (272,028) | (266,242) |

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

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

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

**Currency Risk**

*Significant Accounting Policies*

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, GBP, SEK, NOK, NTD 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.

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

| **Amounts local currency** | KRW | GBP | PHP | JPY | USD | EUR | CHF | SEK | CAD | NOK | NTD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | | | | |
| Cash and cash equivalents | 37,061 | 33,266 | 87,342 | 34,641 | 1,838,361 | 4,611,847 | 322,726 | 425,539 | 67,206 | 96,187 | 14,786 |
| Trade receivables | 30,695 | - | - | 40,945 | 6,510,932 | 3,255,783 | - | - | 150,448 | - | - |
| Trade payables | - | - | (161,624) | (59,286) | (1,950,139) | (2,064,711) | - | - | (8,978) | - | - |
| **Gross balance sheet exposure** | **67,756** | **33,266** | **74,282** | **16,300** | **6,399,154** | **5,802,919** | **322,726** | **425,539** | **208,676** | **96,187** | **14,783** |

| **Amounts local currency** | KRW | GBP | PHP | JPY | USD | EUR | CHF | SEK | CAD | NOK | NTD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | | | | |
| Cash and cash equivalents | 16,328 | 31,861 | 658,675 | 26,779 | 4,035,819 | 3,861,202 | 24,505 | 95,383 | 36,497 | 95,775 | 14,796 |
| Trade receivables | 57,303 | - | - | 38,228 | 3,393,364 | 3,685,949 | - | - | 194,337 | - | - |
| Trade payables | (2,431) | - | (727,596) | (36,920) | (980,956) | (2,013,141) | - | - | (20,499) | - | - |
| **Gross balance sheet exposure** | **71,200** | **31,861** | **(68,921)** | **28,087** | **6,465,928** | **5,534,010** | **24,505** | **95,383** | **210,335** | **95,775** | **14,796** |

**30. FINANCIAL INSTRUMENTS (continued)**

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

| | **Average Rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| AUD = 1 | 2018 | 2017 | 2018 | 2017 |
| USD | 0.7731 | 0.7532 | 0.7407 | 0.7687 |
| EUR | 0.6489 | 0.6880 | 0.6339 | 0.6732 |
| JPY | 85.34 | 82.15 | 81.99 | 86.43 |
| PHP | 39.73 | 36.97 | 39.49 | 38.80 |
| KRW | 849.13 | 857.99 | 824.89 | 879.84 |
| CAD | 0.9855 | 0.9977 | 0.9732 | 0.9966 |

**Market Risk**

*Significant Accounting Policies*

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.

**Interest Rate Risk**

*Significant Accounting Policies*

The effective interest method is used to allocate interest income or interest expense over the relevant period.

*Profile*

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

| **Carrying amount** | **2018** | **2017** |
|---|---|---|
| **Variable rate instruments** | **$** | **$** |
| Financial assets | 4,392,430 | 4,553,615 |

**30. FINANCIAL INSTRUMENTS (continued)**

**Liquidity Risk**

*Significant Accounting Policies*

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.

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

| **2018** | Effective interest rate p.a. | Carrying amount $ | Less than 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1.76% | 13,383,389 | 13,383,389 | - | - |
| Receivables | | 11,994,751 | 11,994,751 | - | - |
| Payables | | (4,783,299) | (4,783,299) | - | - |
| **Total** | | 20,594,841 | 20,594,841 | - | - |

| **2017** | Effective interest rate p.a. | Carrying amount $ | Less than 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|
| Cash and cash equivalents | 0.71% | 14,210,321 | 14,210,321 | - | - |
| Receivables | - | 8,443,879 | 8,443,879 | - | - |
| Payables | - | (5,779,646) | (5,779,6461) | - | - |
| **Total** | - | 16,874,554 | 16,874,554 | - | - |

**30. FINANCIAL INSTRUMENTS (continued)**

**Fair Values**

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | $ | | $ | |
| Consolidated | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash and equivalents | 13,383,389 | 13,383,389 | 14,210,321 | 14,210,321 |
| Trade and other receivables - current | 11,994,751 | 11,994,751 | 8,443,879 | 8,443,879 |
| Trade and other payables - current | (4,783,299) | (4,783,299) | (5,779,646) | (5,779,646) |
| **Total** | 20,594,841 | 20,594,841 | 16,874,554 | 16,874,554 |

**Basis for determining fair values**

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

**Non-derivative financial assets and liabilities**

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

**Fair value hierarchy**

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

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

| | **Level 3** | **Total** |
|---|---|---|
| **30 June 2018** | | |
| **Financial liabilities** | | |
| **-** Contingent consideration payable | - | - |
| **30 June 2017** | | |
| **Financial liabilities** | | |
| **-** Contingent consideration payable | - | - |

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

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

There were no transfers between levels during the financial year.

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

*Valuation techniques for fair value measurements categorised within level 3.*

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

## 30. FINANCIAL INSTRUMENTS (continued)

| Contingent consideration payable | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Balance at beginning of year | - | 179,695 |
| Amount paid (Refer Note 19(b)) | (49,308) | (208,369) |
| Net fair value loss/(gain) | 51,997 | 32,551 |
| Foreign currency translation difference | (2,689) | (3,877) |
| Balance at end of year | - | - |

**Sensitivity Analysis**

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

For the year ended 30 June 2018, it is estimated that a general increase of one percent in interest rates would have decreased the Consolidated Entity's loss after income tax and equity by approximately $134,000 and for the year ended 30 June 2017 the effect would have been to decrease the Consolidated Entity's loss after income tax and equity by approximately $185,000. A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's loss and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have increased the Consolidated Entity's loss for the year ended 30 June 2018, and decreased the Consolidated Entity's equity by approximately $213,000. For the year ended 30 June 2017 the effect would have been to increase the Consolidated Entity's profit and increase the equity by $98,000.

It is estimated that a general decrease of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's loss for the year ended 30 June 2018, and increased the Consolidated Entity's equity by approximately $260,000. For the year ended 30 June 2017 the effect would have been to decrease the Consolidated Entity's loss and increase the equity by $120,000.

## 31. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2018, the parent company was SomnoMed Limited, which has adopted the accounting policies consistent with those of the Consolidated Entity.

| **Result of the parent entity** | **2018** | **2017** |
|---|---|---|
| | **$** | **$** |
| Net (loss)/profit | (835,656) | (3,736,948) |
| Other comprehensive income/(loss) | - | - |
| **Total comprehensive income** | **(835,656)** | **(3,736,948)** |
| **Financial position of the parent entity at year end** | | |
| Current assets | 6,979,617 | 6,454,065 |
| Total assets | 49,146,163 | 37,312,995 |
| Current liabilities | 1,591,866 | 921,999 |
| Total liabilities | 2,066,433 | 921,999 |
| **Total equity of the parent entity comprising of:** | | |
| Issued capital | 57,743,645 | 46,937,359 |
| Share option reserve | 4,029,264 | 3,311,161 |
| Accumulated losses | (14,693,179) | (13,857,523) |
| **Total Equity** | **47,079,730** | **36,390,997** |

**Parent entity contingencies**

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

## SOMNOMED LIMITED
**ACN 003255221**
## DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors

Dr Peter Neustadt
Chairman

19th September 2018

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Sydney NSW 2000
Australia

**INDEPENDENT AUDITOR'S REPORT**

To the members of Somnomed Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Somnomed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Carrying Value of Goodwill**

| *Key audit matter* | *How the matter was addressed in our audit* |
| --- | --- |
| As required by AASB 136 *Impairment of Assets*, goodwill is tested for impairment on an annual basis. The valuation of goodwill is significant to our audit because the balance of $6,375,297 as at 30 June 2018 as disclosed in Note 12 is material to the financial statements.<br><br>The Group has tested goodwill allocated to each cash generating unit for impairment at the reporting date by comparing the carrying value to its recoverable amount. The Group has determined recoverable amount through a value in use calculation for each cash generating unit using a discounted cash flow model, based on a five year projection period approved by management. This process is judgemental and is based on assumptions, specifically those in relation to revenue growth, costs incurred, and discount rates, which are affected by current and future market conditions. | To determine whether the goodwill was impaired, our audit procedures included, amongst others, the following procedures:<br><br>• Evaluated the assumptions used in the discounted cash flow analysis.<br>• Applied a sensitivity analysis on the Group's discounted cash flow models for each cash generating unit to assess whether minor changes in the assumptions made would result in impairment.<br>• Evaluated the adequacy of the disclosures about those assumptions to which the outcomes of the impairment test are most sensitive, that is, those that will have the most significant effect on the determination of the recoverable amount. |

**Recoverability of deferred tax assets**

| *Key audit matter* | *How the matter was addressed in our audit* |
| --- | --- |
| The valuation of the deferred tax asset is significant to our audit because of the material balance at year end of $2,780,670 as disclosed in Note 7 and Note 2d, and judgement surrounding the recoverability of the balance and the complexity of the Group's global business operations.<br><br>The Group has recorded deferred tax assets attributable to carry-forward tax losses of $2,285,446 as at 30 June 2018. The recoverability of deferred tax assets are assessed through a judgemental process and based on assumptions in relation to potential future taxable profits, which are affected by future market conditions. | To determine whether deferred tax assets were recoverable at the reporting date, our audit procedures included, amongst others, the following procedures:<br><br>• Evaluated the assumptions used in forecasts to determine expected future profitability.<br>• Analysed the probability of recoupment which was determined based on future profitability.<br>• Assessed the disclosures with respect to deferred tax balances. |

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the Financial Report**

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

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Somnomed Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO East Coast Partnership**

Grant Saxon
Partner

Sydney, 19 September 2018

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Level 11, 1 Margaret St
Sydney NSW 2000
Australia

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

As lead auditor of Somnomed Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Saxon
Partner

**BDO East Coast Partnership**

Sydney, 19 September 2018

# ADDITIONAL INFORMATION

1. **Shareholding**

a. **Distribution of Shareholders**

| Category (size of Holding) | Shareholders | Shares |
|---|---|---|
| 1-1,000 | 600 | 194,486 |
| 1,001-5,000 | 486 | 1,214,447 |
| 5,001-10,000 | 143 | 1,031,172 |
| 10,001-100,000 | 217 | 5,790,469 |
| 100,001 and over | 46 | 53,975,094 |
| | **1,492** | **62,205,668** |

b. The number of shareholdings held in less than marketable parcels is 312

c. The names of the substantial shareholders listed in the holding company's register as at 4 September 2018 are:

| **Shareholder** | **Number of Ordinary Shares** | **Percentage** |
|---|---|---|
| TDM Asset Management Pty Ltd & Associates | 12,422,014 | 19.97% |
| Dottie Investments Pty Ltd | 5,122,846 | 8.235% |
| National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust | 3,424,861 | 5.51% |
| FIL Limited & Associates | 3,377,651 | 5.43% |

d. **Voting Rights**

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

e. **20 Largest Shareholders — Ordinary Shares as at 4 September 2018**

| | Name | No. of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1. | HSBC Custody Nominees (Australia) Limited | 19,800,426 | 31.831% |
| 2. | National Nominees Limited | 6,154,153 | 9893% |
| 3. | Dottie Investments Pty Ltd | 5,122,846 | 8.235% |
| 4. | Smartequity EIS Pty Ltd | 4,277,723 | 5.872% |
| 5. | Belgove Pty Ltd | 2,409,570 | 3.874% |
| 6. | J P Morgan Nominees Australia Limited | 1,949,718 | 3.314% |
| 7. | Ginga Pty Ltd | 1,599,060 | 2.571% |
| 8. | Golden Words Pty Ltd | 1,275339 | 2.050% |
| 9. | Bond Street Custodians Limited | 1,002,128 | 1.611% |
| 10. | BNP Paribas Nominees Pty Ltd < Agency Lending DRP A/C > | 951,193 | 1.529% |
| 11. | Citicorp Nominees Pty Limited | 948,513 | 1.525% |
| 12. | Timbina Pty Ltd <Timbina Super Fund A/C> | 920,517 | 1.480% |
| 13. | P Neustadt Holdings Pty Ltd | 826,942 | 1.329% |
| 14. | BNP Paribas Nominees Pty Ltd < IB AU Noms Retail Client DRP > | 671,391 | 1.079% |
| 15. | BNP Paribas Nominees Pty Ltd < DRP> | 551,187 | 0.886% |
| 16. | Thirty Sixth Vilmar Pty Ltd | 375,311 | 0.603% |
| 17. | Honne Investments Pty Limited | 375,000 | 0.603% |
| 18. | Mr Edward Palmisano | 330,573 | 0.531% |
| 19. | Clanricarde Investments Pty Ltd | 317,756 | 0.511% |
| 20. | R E M Medical Pty Ltd | 532,654 | 0.856% |
| | | **50,392,000** | **80.004%** |

# CORPORATE DIRECTORY

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

**Directors**

| | |
|---|---|
| Peter Neustadt | Non-executive Chairman |
| Lee Ausburn | Non-executive Director |
| Robert Scherini | Non-executive Director |
| Hamish Corlett | Non-executive Director |

**Chief Executive Officer**

Derek Smith

**Chief Financial Officer**
Neil Verdal-Austin

**Company Secretary**
Terence Flitcroft

**Patent Attorneys**
Spruson & Ferguson

**Banker**
Westpac Banking Corporation

**Auditors**
BDO East Cost Partnership

**Share Registry**
Boardroom Pty Limited
SYDNEY NSW 2000

(GPO Box 3993 Sydney NSW 2001)

Telephone (02) 9290 9600

Facsimile (02) 9279 0664

wwwboardroomlimited.com.au

**Company Website**
www.somnomed.com.au

**Stock exchange listing**

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