SOMNOMED LIMITED
ABN 35 003 255 221
ASX Preliminary final report – 30 June 2014

Lodged with the ASX under Listing Rule 4.3A

Contents

SomnoMed Limited
Year ended 30 June 2014
Results for Announcement to the Market

				2014	2013
Revenue from ordinary activities	Increase by $7,339,594	Increase by 39.5%	to	$25,921,284	$18,581,690
Profit from ordinary activities after tax attributable to members	Decreased by $182,932	Decreased by 31.1%	to	$405,861	$588,793
Net Profit/(loss) for the period attributable to members	Decreased by $182,932	Decreased by 31.1%	to	$405,861	$588,793
Profit from ordinary activities before tax attributable to members	Increased by $277,940	Increased by 220%	to	$404,024	$126,084

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2014 are as follows:

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

The Board has resolved that no dividend will be paid for the year ended 30 June 2014.

Record date for determining entitlements to the dividend N/A

SomnoMed continues on its growth path towards a bright future

SomnoMed Limited finished the financial year 2013/14 with total revenues of $25.89 million, a growth of 40% above the previous year.

EBITDA for the year grew by 26.5% to $1.05m (previous year $830,000) after expensing investments made during the year in the build-up of the US medical departments, restructuring of the US dental sales and customer service departments, expenses relating to the acquisition of European businesses and the set up cost of entities relating to the entry of new markets in Asia and especially Europe. Taking these investments of approximately $2.3m into account, the underlying EBITDA for 2013/14 was in the order of $3.3m or 13% of group revenue.

Apnea unit sales trends in all three global regions were positive throughout the year. Record fourth quarter sales of 12,000 units assisted SomnoMed in achieving full year unit sales of 43,438 units and a growth of 21% over the prior year.

The outstanding performer for the year was Europe – unit sales grew by 41% year over year and as expected the share of SomnoMed's European market is growing, driven by the growing acceptance and reimbursement listings of oral appliance therapy in a number of countries. These developments are expected to continue to drive European growth in the future.

Good growth in demand and higher sales were recorded in Australia towards the end of the financial year, together with a solid performance in Japan and South East Asia. APAC finished with units sales growth of 12% over the prior year.

Unit sales growth in North America reflected the positive impact of changes made to the dental service and sales departments of SomnoMed's US operation and first results achieved through the medical initiative setting up medical capabilities by establishing a number of departments in the US organisation. Annual sales grew by 12.3%, however, whilst first half sales increased by 6.5% compared to the corresponding period in the previous year, sales in the second half grew by 18%.

"The establishment of the US medical departments and related medical education and sales programs are now completed. These investments have created the foundation for a business in the US which will see SomnoMed not only as the leader of oral appliance therapy in the dental community but more importantly as a medically accepted alternative to the dominant CPAP therapy. This will be the foundation of our future growth in the US market," said Dr. Peter Neustadt, Executive Chairman and CEO of SomnoMed.

The group gross margin was 65% (direct MAS gross margin was 67%) despite being affected by additional production and service cost relating to the restructuring of the US customer service operation, the higher production cost inherited from the acquired laboratories in France and in Sweden during the second half of FY 12/13 und the acquisition of the German service laboratory and distribution entity, which took place on 1 July 2013. However, as a result of the vertical integration of acquired operations in Europe, SomnoMed was able to see the net average sales price rise by 13.7% compared to the previous year and - despite a small drop in gross margin – could record increased contributions per unit after cost of goods sold.

SomnoMed continued to expand and develop its global marketing and distribution network throughout its sales regions and as of June 2014 had more than 4,750 active accounts in SomnoMed's Preferred Dental Network globally. Sales and marketing expenses increased by 38% year on year and regional administration costs increased by 58% over the same period, primarily due to the consolidation and costs involved in the establishment of medical departments, additional sales staff in all regions, new premises in Holland, reporting systems upgrades and increased marketing & promotional costs. Also reflected in these administration increases are the expansion of the European operation through the acquisition of complimentary or vertically integrated businesses in Germany, Sweden and France, as well as the costs of preparing to enter the markets of Finland, UK, Ireland, Spain and Portugal.

Despite the magnitude of activities carried out during the year, corporate, research and business development expenses were kept to $2.64 million, an increase of only 8% above the previous year.

During the year SomnoDent® Herbst was launched in the US as a product for the lower priced segment of the market and Medicare. Herbst sales started in September 2013 and are performing better than expected. FDA approval for the new SomnoDent® Fusion was received and introduced to the market at the US SLEEP 2014 exhibitions in Minneapolis in June this year, together with the introduction of the proprietary new Herbst Advance device; a compliance recording device, DentiTrac®, is currently under review by the FDA and will be introduced to the markets in the new financial year and further clinical research projects continue to be funded around the world. At the end of the year SomnoMed launched globally SomTaps, an antibacterial cleaning product especially designed for the daily maintenance of SomnoDent® devices.

"We are pleased that as a result of the completed US medical initiative we will begin to see the impact that this will have on our future US sales. This together with the rapid growth in Europe and an impressive line-up of new products released recently or scheduled to be released in 2014/15, give us great confidence in the future of SomnoMed as the leading company in oral appliance therapy in the world," said Dr. Neustadt.

"The year 2013/14 has seen SomnoMed expanding its global operation significantly. Acquisitions were made and integrated in some countries and in other countries third party distribution arrangements were replaced with our own marketing and sales operations. A number of new markets were either entered or preparation was made for the entry at the beginning of the new financial year and our product line was broadened substantially after several years of relying essentially on SomnoMed's original product alone. Sales and marketing strategies were reviewed and sales efforts were focused on the medical side, recognising the importance of physicians prescribing the treatment for diagnosed patients and a number of medical departments were built in our US organisation. All this is designed to allow SomnoMed to be recognised as an equal player, albeit still tiny compared to our CPAP competitors, in the global medical device industry treating sleep disordered breathing patients and being the principal party benefitting from the transition from CPAP to oral appliance therapy," Dr Neustadt commented.

SomnoMed finished the financial year with a strong balance sheet with no third party debt. Strong cash management during the year even allowed us to maintain our cash balance at $3 million at the end of June 2014, despite the significant growth in revenues and working capital requirements," said Dr. Neustadt.

SomnoMed confirms its previously announced guidance for 2014/15, with the expectation of annual sales of 55,000 units and revenues of $32.5 million, representing year on year growth of 26.5% and 25.0% respectively (revenue growth at constant exchange rates). The guidance also included for the first time a range of $2.0 and $4.0 million EBITDA as the expected profits for 2014/15.

"2013/14 was a very important year for SomnoMed. We grew fast, we expanded geographically and product wise and grew our sales departments in all three global regions. We cemented our medical strategy, built new departments and added those capabilities which are required to accelerate the process of acceptance of our SomnoMed COAT™ therapy from medical practitioners, insurers and patients. All this was achieved without losing control over our objective to build our business aggressively, whilst still generating a positive result after absorbing the investments expensed during the year, growing our EBITDA by 26.5% year on year. We are pleased with everything achieved during the financial year 2013/14. More importantly, the foundations laid and the trends observed allow us to look very confidently to the year 2014/15 and beyond," commented Dr. Neustadt.

At the beginning of the new financial year SomnoMed announced the placement of a limited number of shares and a subsequent Share Purchase Plan issue to all shareholders to raise capital of approximately $7 million to finance the doubling of its production capacity, the phasing in of digital equipment in the production process and to fund working capital for the fast growing operation in the three global regions.

SomnoMed Limited
Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2014

	2014 $	2013 $
Revenue from sale of goods and services, net of discounts	25,894,846	18,488,871
Cost of sales	(9,085,059)	(6,221,200)
Gross margin	**16,809,787**	**12,267,671**
Sales and marketing expenses	(7,637,237)	(5,542,728)
Administrative expenses	(5,474,861)	(3,468,254)
Net foreign exchange gain on derivative	-	(29,629)
Operating profit before corporate, research and business development expenses, non-cash items and income tax	**3,697,689**	**3,227,060**
Corporate, research and business development expenses	(2,648,325)	(2,460,722)
Revenue from investment activities	26,438	92,819
Share and options expense	(125,003)	(88,183)
Depreciation and amortization	(609,657)	(503,283)
Loss on disposal of fixed assets	(16,486)	-
Share of profits of associates accounted for using the equity method	-	63,601
Interest expense	(12,748)	-
Unrealised foreign exchange loss	(81,417)	(16,305)
Profit before income tax expense from continuing operations	**230,491**	**314,987**
Income tax (expense)/benefit	(15,535)	389,688
Profit after income tax for the year	**214,956**	**704,675**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Foreign exchange translation difference for foreign operations	(182,131)	1,193,504
Other comprehensive income for the year, net of tax	(182,131)	1,193,504
Total comprehensive income for the year attributable to the owners of SomnoMed Limited	**32,825**	**1,898,179**
Profit for the period is attributable to:		
Non-controlling interest	(190,905)	115,882
Owners of the parent	405,861	588,793
	214,956	**704,675**
Total comprehensive income for the year attributable to:		
Non-controlling interest	(190,905)	115,882
Owners of SomnoMed Limited	223,730	1,782,297
	32,825	**1,898,179**
Earnings per share attributable to the owners of SomnoMed Limited (Note 12)		
Basic earnings per share (cents per share)	0.95	1.39
Diluted earnings per share (cents per share)	0.94	1.39

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

SomnoMed Limited
Preliminary Consolidated Statement of Financial Position
as at 30 June 2014

ASSETS	30.06.2014	30.06.2013 restated	01.07.2012 restated
	$	$	$
Current Assets			
Cash and cash equivalents	2,944,888	4,221,299	3,537,587
Trade and other receivables	5,495,228	4,383,280	3,741,407
Inventory	964,984	854,169	500,229
Total Current Assets	9,405,100	9,458,748	7,779,223
Non-Current Assets			
Property, plant and equipment	1,250,524	1,154,789	1,068,831
Intangible assets	6,092,389	5,309,127	3,795,853
Investment in associate entity	-	223,396	159,795
Deferred tax asset	2,394,617	2,156,015	1,181,726
Total Non-Current Assets	9,737,530	8,843,327	6,206,205
Total Assets	19,142,630	18,302,075	13,985,428
LIABILITIES			
Current Liabilities			
Trade and other payables	3,324,963	3,538,757	3,041,511
Provisions	825,672	860,660	338,219
Contingent consideration payable	585,475	382,485	-
Total Current Liabilities	4,736,110	4,781,902	3,379,730
Non-Current Liabilities			
Trade and other payables	131,795	123,992	1,997,617
Provisions	59,856	14,857	1,734
Contingent consideration payable	1,645,167	1,808,602	-
Total Non-Current Liabilities	1,836,818	1,947,451	1,999,351
Total Liabilities	6,572,928	6,729,353	5,379,081
Net Assets	**12,569,702**	**11,572,722**	**8,606,347**
EQUITY			
Issued capital	26,464,894	26,067,022	25,387,429
Reserves	2,402,924	2,431,879	1,150,192
Accumulated losses	(16,529,607)	(17,097,069)	(17,901,356)
Equity attributable to owners of SomnoMed Limited	12,338,211	11,401,832	8,636,265
Non-controlling interests	231,491	170,890	(29,918)
Total Equity	**12,569,702**	**11,572,722**	**8,606,347**

Refer to Note 16 for additional information on the restatement of comparatives.

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

SomnoMed Limited
Preliminary Consolidated Statement of Changes in Equity
for the year ended 30 June 2014

	Issued Capital $	Reserves $	Accumulated Losses $	Owners of parent $	Non-controlling interest $	Total $
Balance at 1 July 2012	25,387,429	1,150,192	(18,126,242)	8,411,379	194,968	8,606,347
Adjustment for correction of error (Refer Note 15)	-	-	224,886	224,886	(224,886)	-
Balance at 1 July 2012 restated	25,387,429	1,150,192	(17,901,356)	8,636,265	(29,918)	8,606,347
Profit after income tax expense for the year	-	-	588,793	588,793	115,882	704,675
Other comprehensive income for the year, net of tax	-	1,193,504	-	1,193,504	-	1,193,504
Total comprehensive income for the year	-	1,193,504	588,793	1,782,297	115,882	1,898,179
Recognition of non-controlling interest	-	-	-	-	300,420	300,420
Transactions with owners in their capacity as owners:						
Shares issued during the period	679,593	-	-	679,593	-	679,593
Share option reserve on recognition of remuneration options	-	88,183	-	88,183	-	88,183
Balance at 30 June 2013	26,067,022	2,431,879	(17,312,563)	11,186,338	386,384	11,572,722
Adjustment for correction of error (Refer Note 15)	-	-	215,494	215,494	(215,494)	-
Balance at 30 June 2013	26,067,022	2,431,879	(17,097,069)	11,401,832	170,890	11,572,722

	Issued Capital $	Reserves $	Accumulated Losses $	Owners of parent $	Non-controlling interest $	Total $
Balance at 1 July 2013	26,067,022	2,431,879	(17,097,069)	11,401,832	170,890	11,572,722
Acquisition of subsidiary (Refer Note 14)	-	53,062	184,576	237,638	299,370	537,008
Profit after income tax expense for the year	-	-	405,861	405,861	(190,905)	214,956
Other comprehensive income for the year, net of tax	-	(182,131)	-	(182,131)	-	(182,131)
Total comprehensive income for the year	-	(182,131)	405,861	223,730	(190,905)	32,825
Allocation from accumulated losses	-	22,975	(22,975)	-	-	-
Investment payback	-	(47,864)	-	(47,864)	(47,864)	(95,728)
Transactions with owners in their capacity as owners:						
Shares issued during the period	397,872	-	-	397,872	-	397,872
Share option reserve on recognition of remuneration options	-	125,003	-	125,003	-	125,003
Balance at 30 June 2014	26,464,894	2,402,924	(16,529,607)	12,338,211	231,491	12,569,702

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

SomnoMed Limited
Preliminary Consolidated Statement of Cash Flows
for the year ended 30 June 2014

	2014 $	2013 $
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	25,137,579	18,133,123
Payments to suppliers and employees	(25,442,438)	(17,584,424)
Interest received	24,627	92,776
Income tax paid	(510,177)	(69,474)
Net cash (outflow)/inflow from operating activities (Refer Note 12)	(790,409)	572,001
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	(348,929)	(521,903)
Payments for intangible assets	(85,376)	(100,273)
Net cash from acquisition of associated entity	352,758	-
Proceeds from settlement of forward exchange contract	-	27,544
Payments for property, plant and equipment	(314,404)	(198,016)
Net cash outflow from investing activities	(395,951)	(792,648)
Cash flows from financing activities		
Proceeds from issue of shares	4,350	540,754
Capital return to minority shareholder	(48,237)	-
Net cash (outflow)/inflow from financing activities	(43,887)	540,754
Net (decrease)/increase in cash and cash equivalents	(1,230,247)	320,107
Cash at beginning of the financial year	4,221,299	3,537,587
Exchange rate adjustment	(46,164)	363,605
Cash at the end of the financial year	2,944,888	4,221,299

The cash balances at 30 June 2013 and 30 June 2014 are represented by cash at bank and money market securities.

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

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2014

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2014 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders.

2. BASIS OF PREPARATION

a. Statement of compliance

The preliminary financial report has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Standards Board and the Corporations Act 2001 as appropriate for profit oriented entities. The preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public pronouncements made by the consolidated entity during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001. Unless otherwise detailed in this note, accounting policies have been consistency applied by the entities in the group, and are consistent with those applied in the 30 June 2013 annual report.

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Use of judgments and estimates

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of Consolidation

Controlled entities

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

Transactions eliminated on consolidation

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

Business combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of Consolidation (continued)

Business combinations

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not 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 income statement.

b. Income Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products. Revenue from the sale of goods is recognised upon dispatch of goods to customers.

Other income

Other income is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

c. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

d. Foreign Currency

Foreign currency transactions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency (continued)

Financial statements of foreign operations

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

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

e. Cash and cash equivalents

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

f. Financial Instruments

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

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

Non-derivative financial assets and liabilities

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

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

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

Determination of fair values

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

Other

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

g. Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Provisions (continued)

Warranties

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

Make good lease costs

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

Research and development expenditure

Research and development expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

Patents	10 years	Product development expenditure capitalized	5 years

h. Impairment

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Impairment (continued)

Calculation of recoverable amount

Receivables

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

Other assets

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

Reversals of Impairment

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

i. Property, Plant and Equipment

Owned assets

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

Leased assets - Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Property, Plant and Equipment (continued)

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

j. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

k. Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Other long-term employee benefits

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

Share based payments

The Company has granted options to certain directors and employees. The fair value of options and shares granted is recognised as a share and option expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

l. Receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Taxation

Income tax expense in the statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

n. Payables

Trade and other payables are stated at amortised cost.

o. Finance income and expense

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

p. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

q. Segment Reporting - Determination and presentation of operating segments

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity’s other components if separately reported and monitored. An operating segment’s operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results

r. Accounting judgment and estimates

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Accounting judgment and estimates (continued)

Key sources of estimation uncertainty

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

Share-based payment transactions

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

Goodwill and other indefinite life intangible assets

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

Income tax

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

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

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

Recovery of deferred tax assets

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

Employee benefits provision

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Accounting judgment and estimates (continued)

Lease make good provision

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

Warranty provision

In determining the level of provision required for warranties the consolidated entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

Business combinations

Business combinations are initially accounted for on a provisional basis.

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

s. Share Capital

Ordinary shares

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

t. 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 2014. 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.

Certain new accounting standards, amendments to accounting standards and interpretations are effective for the financial years beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Consolidated Entity except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements and AASB 13 – Fair Value Measurement, which becomes mandatory for the Consolidated Entity's 2014 financial statements. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

<u>Annual Improvements to IFRSs 2010-2012 Cycle</u>

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

u. 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.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u. New, revised or amending Accounting Standards and Interpretations adopted (continued)

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

v. 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.

w. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Fair value measurement (continued)

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

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

• Credit risk

• Liquidity risk

• Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

The Audit Committee oversees adequacy of the Company’s risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

4. FINANCIAL RISK MANAGEMENT (continued)

Overview (continued)

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Swiss francs (CHF), Singapore dollar (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, CHF, SGD, JPY and Philippine Peso (PHP) and Korean Won (KRW).

Over 89% (2013-87%) of the Consolidated Entity's revenues and over 82% (2013-76%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in Australia.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of Directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

5. Events occurring after reporting date

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

On 8th August 2014 the Company issued 3.430 million shares by way of a placement at an issue price of $1.50 per share. In July 2014, subject to shareholder approval being obtained at the Company's 2014 AGM, the Chairman and other Directors of the Company have committed to subscribe for a total of 270,000 shares at an issue price of $1.50 per share. A total of 1 million shares are to be issued at $1.50 per share in August 2014 pursuant to the Share Purchase Plan offer made in July 2014. The total funds raised from the above-mentioned issues of approximately $7 million will be utilised to provide the Company with sufficient resources to enable it to double its plant capacity and fund working capital for increased revenues in existing markets, as well as fund working capital and operational activities in new markets.

6. Associates and Joint Venture entities

The company had a 50% interest in SMH Biomaterial AG in 2013. The results for the year included 50% of the profit of SMH Biomaterial AG $63,601. From 1st July 2013 SomnoMed Limited obtained control of the entity (refer Note 14 (b)).

7. Contingent liabilities

As at 30 June 2014 no contingent liabilities or capital commitments existed, other than:

i. pursuant to acquiring the MAS Nordic business in January 2013 and subject to the performance of SomnoMed's business in the Nordic region, additional SomnoMed shares to the value of approximately A$70,000 may be issued over the next two years as part of this acquisition and

ii. pursuant to the acquisition of the Orthosleep 19 GmbH business in July 2013 contingent consideration may be payable. The total consideration amounted to 440,000 Euros (approximately A$560,000) payable in three tranches, with the second and third tranche being linked to the results of sales achieved with key Orthosleep customers in the financial year 2013/14 and 2014/15. About Euros 133,333 of the total consideration may be payable through the issue of shares in SomnoMed in equal parcels, on the first and second anniversary of the acquisition. Shares will be issued at the weighted average market price during the three months preceding the issue.

8. Other significant information

N/A.

9. Foreign Accounting standards

N/A.

10. NTA Backing

	2014	2013
Net tangible asset backing per ordinary share	9.10 cents	9.49 cents

11. Profit per Share

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

	2014	**2013**
Net profit used in calculating basic and diluted earnings per share	$405,861	$588,793
Basic profit per share (cents per share)	0.95	1.39
Diluted profit per share (cents per share)	0.94	1.39
Weighted average number of shares used in the calculation of diluted earnings per share	43,042,907	42,402,661
Weighted average number of shares used in the calculation of basic earnings per share	42,796,729	42,269,254
Shares on issue at year end	42,956,880	42,622,839
Number of options on issue at year end – each option is exercisable at between 87 cents and $1.23 per share and converts to one ordinary share	805,000	1,535,000

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

	2014	**2013**
Shares on issue at end of year	44,856,380	43,287,839
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)	(1,899,500)	(665,000)
Number of shares recorded as issued capital in Company's accounts	42,956,880	42,622,839

12. Cash flow reconciliation

RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	**$**	**$**
Operating Profit after income tax	214,956	704,675
Share and Option expense	125,003	88,183
Share of associate company profit	-	(63,601)
Depreciation and amortization	609,657	503,283
Net exchange differences	81,417	45,933
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(44,214)	(217,702)
(Increase)/Decrease in receivables	(975,382)	(384,108)
Increase/(Decrease) in creditors & other payables	(510,466)	349,976
Increase/(Decrease) in provisions	11,631	184,252
(Increase)/Decrease in deferred tax assets	(303,011)	(638,890)
Net cash (outflow)/inflow from operating activities	(790,409)	572,001

13. Segment Operations

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

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

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

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.

Information about reportable segments

Geographic location:	**Asia Pacific**	**USA**	**Europe**	**Total**
2014	**$**	**$**	**$**	**$**
External sales revenue	**3,103,179**	**11,029,038**	**11,762,629**	**25,894,846**
Segment net profit before tax	**531,888**	**541,559**	**1,567,992**	**2,641,439**
Unallocated expense items				(2,424,638)
Interest received				26,438
Interest paid				(12,748)
Profit before tax				**230,491**
Income tax expense				(15,535)
Profit after tax				**214,956**

Geographic location:	**Asia Pacific**	**USA**	**Europe**	**Total**
2013	**$**	**$**	**$**	**$**
External sales revenue	**2,630,412**	**9,705,124**	**6,153,335**	**18,488,871**
Segment net profit before tax	**447,184**	**1,381,542**	**520,445**	**2,349,171**
Unallocated expense items				(2,127,003)
Interest received				92,819
Profit before tax				**314,987**
Income tax benefit				389,688
Profit after tax				**704,675**

Note 14. Acquisition of Subsidiaries and Restructuring

a. SomnoMed acquired the entire business of Orthosleep 19 GmbH effective as at 1 July 2013. Orthosleep 19 is a leading technical dental laboratory producing and distributing oral appliances in Germany, which has been combined with the Company's operations in Germany, so as to provide a fully integrated operation.

(i) The purchase was satisfied by the issue of SomnoMed Shares, cash and contingent consideration payable.

	EUR €	AUD $
Purchase consideration		
Cash paid to vendors	102,563	148,879
Issue of shares in SomnoMed Limited	66,667	96,773
Total consideration paid	169,230	245,652
Liability recognised for contingent consideration		
- Cash and shares	266,666	387,090
Total consideration paid or payable	435,896	632,742
Fair value of net identifiable assets	(35,897)	(52,108)
Goodwill (at date of acquisition)	399,999	580,634

The goodwill which arose on acquisition of Orthosleep 19 included customer information and market knowledge. Additional consideration may be payable to the vendors, subject to certain conditions, as described in Note 7.

Contingent consideration is payable in 2 annual tranches, the amount of which is dependent on the achievement of certain sales volume and profitability targets.

(ii) Assets and liabilities acquired
The assets and liabilities arising from the acquisition are as follows:

	EUR €	AUD $
Inventory	12,900	18,726
Property, plant and equipment	22,997	33,382
100% net identifiable assets acquired	35,897	52,108

(iii) Revenue and Net profit after tax of SomnoMed Germany GmbH included in the consolidated revenue and results since the acquisition date amounted to $863,282 and $114,908 respectively. This result included the business of Orthosleep 19. The operations of the business are included in the operations of SomnoMed Germany GmbH and the result of the Company could have been different following the acquisition of the business by SomnoMed however it is not possible to determine the revenue or result which would have eventuated had the business been held for the entire financial year.

	EUR €	AUD $
Revenue	594,715	863,282
Profit after tax	79,160	114,908

Additional consideration may be payable to the vendors, subject to certain conditions, as described in Note 7.

Note 14. Acquisition of Subsidiaries and Restructuring (cont.)

b. SMH Biomaterial AG is jointly owned by SomnoMed Limited (50%) and Mr Konrad Hofmann (50%) and in the 30 June 2013 accounts and prior to this date, this investment was considered an associated entity of SomnoMed and accounted for on an equity accounting basis. From 1 July 2013, Mr Hofmann entered into an employment arrangement with the SomnoMed group. As a result of this arrangement and other considerations SMH Biomaterial AG has been accounted for as a controlled entity from 1 July 2013 when the control is deemed to have occurred. The table and information detailed below summarises the changes made to the opening balances and results for the year due to the above:

	Reserve	Accumulated Losses	Non-controlling Interest
	$	$	$
Balance as reported at 30 June 2013	2,431,879	(17,097,069)	170,890
Effect of control of SMH	53,062	184,576	299,370
Balance at 1 July 2013	2,484,941	(16,912,493)	470,260

Revenue and net profit after tax of SMH Biomaterial AG included in the accounts are as follows:

	EUR	AUD
	€	$
Revenue	154,400	227,267
Profit after tax	59,940	88,228
Equity	473,112	775,195
Non-controlling interest	236,556	387,598

In the previous half year the result included 50% of the profit of SMH Biomaterial AG being $35,107.

c. In November 2013 SomnoMed acquired various intangible assets enabling it to sell SomnoDent® MAS devices in the South Korean market, including registration approvals, customer information and marketing materials. The total consideration of $175,000 was paid as a combination of cash and shares. No tangible assets were acquired and therefore the entire consideration has been treated as goodwill.

15. Prior period adjustment

In January 2012 SomnoMed entered into a contract to acquire the Dutch oral appliance distribution company Goedegebuure Slaaptechniek 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 April 2014. The price for each of these 12.5% tranches is linked to the future net profits generated by this business in the Netherlands and is payable half in cash and half in shares in SomnoMed Limited.

In prior periods the fair value of contingent consideration in relation to the acquisition of the initial interest in Goedegebuure Slaaptechniek B.V. was not brought to account, due to the difficulty in accurately determining the value of the future consideration payable at the time of acquisition, that consideration being linked to the future profitability of the business acquired. Accordingly, the value of goodwill on acquisition of the investment and the estimated fair value of future consideration payable to the vendor were understated. These amounts have been adjusted in the current period. The line items affected by this change are disclosed below. Earnings per share in these years were not affected, as there was no profit and loss impact as a result of this adjustment.

	Statement of financial position at the beginning of the earliest comparative period			*Statement of financial position at the end of the earliest comparative period*		
	1 July 2012 as reported	**Adjustment**	**1 July 2012 restated**	**30 June 2013 as reported**	**Adjustment**	**30 June 2013 restated**
Extract						
Assets						
Current Assets	7,779,223	-	7,779,223	9,458,748	-	9,458,748
Goodwill	1,321,190	1,987,317	3,308,507	2,665,223	2,191,087	4,856,310
Total Non-Current Assets	4,218,888	1,987,317	6,206,205	6,652,240	2,191,087	8,843,327
Total Assets	**11,998,111**	**1,987,317**	**13,985,428**	**16,110,988**	**2,191,087**	**18,302,075**
Liabilities						
Current Liabilities	(3,379,730)	-	(3,379,730)	(4,399,417)	(382,485)	(4,781,902)
Contingent Consideration	-	(1,987,317)	(1,987,317)	-	(1,808,602)	(1,808,602)
Total Non-Current Liabilities	(12,034)	(1,987,317)	(1,999,351)	(138,849)	(1,808,602)	(1,947,451)
Total Liabilities	**(3,391,764)**	**(1,987,317)**	**(5,379,081)**	**(4,538,266)**	(2,191,087)	**(6,729,353)**
Net Assets	**8,606,347**	**-**	**8,606,347**	**11,572,722**	**-**	**11,572,722**
Non-controlling Interests	194,968	(224,886)	(29,918)	611,270	(440,380)	170,890
Accumulated Losses	(18,126,242)	224,886	(17,901,356)	(17,537,449)	440,380	(17,097,069)
Total Equity	**8,606,347**	**-**	**8,606,347**	**11,572,722**	**-**	**11,572,722**

In April 2014, the consideration relating to the acquisition of additional 12.5 percent interest in Goedegebuure Slaaptechniek B.V. was paid bringing its total interest as at 30 June 2014 to 62.5 percent.

*** Goodwill on consolidation is translated at closing exchange rates.***

16. Fair values

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 2	Level 3	Total
30 June 2014			
Derivative financial assets/(liabilities)			
- Forward exchange contracts	-	-	-
Financial liabilities			
- Contingent consideration payable	-	2,230,642	2,230,642
30 June 2013			
Derivative financial assets	(29,893)	-	(29,893)
- Forward exchange contracts			
Financial liabilities			
- Contingent consideration payable	-	2,190,087	2,190,187
30 June 2012			
Derivative financial assets/(liabilities)			
- Forward exchange contracts	20,644	-	20,644
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 2 and level 3

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

The fair value of contingent consideration payable in relation to the Goedegebuure Slaaptechniek B.V. acquisition is based on the value of the additional 12.5% interest acquired in the current year. Contingent consideration in relation to the Orthosleep 19 acquisition has been assessed using current year and budgeted sales volumes and profits.

Audit

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

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

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

Sign here: .... Date: 21st August 2014
(Director)

Print name: Dr Peter Neustadt