SomnoMed®

The Leader In COAT™

(Continuous Open Airway Therapy)

CHANGING LIVES

SomnoMed®

ANNUAL REPORT 2013

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EXECUTIVE CHAIRMAN'S REPORT

Dear SomnoMed Shareholder,

It gives me great pleasure to submit to you our annual report for the financial year 2012/13. The year gone by was extremely busy and sometimes challenging and saw not only the continuation of our growth story but also significant changes in our company's business and management around the globe. We believe that these changes and expansion were important steps on our way to allow SomnoMed to grow into the medical device company we all want to see, capable of capitalising on our role of being the leader in Continuous Open Airway Therapy ("COAT™") and an accepted alternative to CPAP in the treatment of sleep disordered patients around the world.

FINANCIAL RESULTS

SomnoMed Limited finished the financial year 2012/13 with total revenues of $18.49 million, a growth of 21.3% above the previous year.

EBITDA for the year came to $830,000, which is after investments expensed during the year relating to the recruitment of executives and staff and the build-up of the US medical departments, restructuring of the US dental sales and customer service departments and the expenses relating to the acquisition of European businesses. Taking these investments of approximately $1.47m into account, the underlying EBITDA for 2012/13 was in the order of $2.3m or 12% of group revenue. This is a good indication of SomnoMed's ability to generate strong margins and potentially fast growing profits, as the revenues build in the coming years.

Seasonally stronger fourth quarter sales, with record sales in all regions, assisted SomnoMed in achieving full year unit sales of 35,841 and a growth of 16% over the prior year. Apnea unit sales have shown good growth over the previous period, especially in the fourth quarter, where sales above 10,000 units were achieved for the first time in a quarter.

The outstanding performer for the year was Europe – unit sales grew by 32.0% year over year and accelerated to a growth of 35.7% in the fourth quarter. 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.

The Gross Margin for the year for MAS devices was 69% and overall for all group businesses 66.3%. This is slightly below the previous year, due to the absorption of cost relating to the restructure of our US laboratory operation and the integration of the acquired laboratories in Stockholm, Sweden and Angers, France.

The Operating Profit before corporate, research and development expenses was $3.23 million, the same as in the previous year. Over two million dollars more was spent during the year to expand our operations in all regions. Of that, over $1.2 million was spent building our medical capabilities in the US and expenditure of approximately $300,000 was incurred relating to acquisitions carried out in Sweden and France and in the lead up to the acquisition of a company in Germany, which became effective on the 1 July 2013. The remaining $500,000 in increased expenses predominantly related to the expansion of sales & marketing departments, in line with the growth of SomnoMed's business.

Our corporate expenses, which include expenditure relating to research, product development and global production management, were $2.46 million, less than 4% higher than in the previous year, despite an expansion of our corporate finance department, participation in medical research projects and the development and approval of the new Herbst line of products.

The strength of our business can be seen in the fact that our cash balance increased from $3.54 million at the end of June 2012 to $4.22 million at the end of the financial year. The improvement of our cash balance is particularly pleasing in the light of the above-mentioned expenditure of $1.5 million incurred on acquisitions made during the year, the expansion of our marketing & sales operation around the world and the investments made in building the medical capabilities in the US. Thanks to the strength of our underlying business and strong financial management, SomnoMed managed to expand and build its business, once again, without requiring additional funding either from its shareholders or from third parties. As a result we are pleased to present to you at the end of the financial year 2012/13 again a strong balance sheet without any third party debt.

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

EUROPE

The European region performed excellently during 2012/13 and generated a growth in unit sales of 32.0% for the year. The growth trend in Europe accelerated through the year, with the fourth quarter generating growth of over 35% year on year. Revenues grew substantially and exceeded Euro 5.0 million for the first time. Contributions generated for the SomnoMed Group more than doubled year on year.

SomnoMed is currently operating in Europe in four sub regions – Nordic (Sweden, Norway and Denmark), Benelux (Holland, Belgium and Luxembourg), German Speaking (Germany, Switzerland, Austria) and France. SomnoMed also has a presence in Italy through a third party distributor.

During the past financial year three more acquisitions were finalised. On 1 December SomnoMed settled the acquisition of 65% of Orthosom SA's business in France. Orthosom is the second largest producer and distributor of oral appliances in France, behind Resmed owned Narval. The integration of the business based in Nantes on the west coast of France and the introduction of the French reimbursed SomnoDent® device through the Orthosom sales organisation is going according to plan. Given the low reimbursement rate for oral appliances in France, the still relatively small volumes absorbed in the market and a relatively high fixed cost base of the acquired Orthosom laboratory, we expect good volume growth but negative profit contributions for the next two years. However, France is the second biggest country in Europe and SomnoMed's presence is of great strategic importance.

On 1 January 2013 SomnoMed took over the operations of MAS Nordic, a service lab and distributor of SomnoDent® products in Sweden. This acquisition allows SomnoMed Nordic to have a fully integrated operation, which is of importance as the reach of the Nordic operation expanded during the year into Norway and Denmark. The sales team in the Nordic region was expanded and a locally based sales manager for Norway joined SomnoMed Nordic in April 2013. Good growth was recorded in the region during the year and the new SomnoDent® G2 was successfully launched in early 2013.

The Benelux region had an excellent year, generating substantial growth in volume and revenues. SomnoDent® is the dominant product in the medical market in Holland and listed by the nine most important insurers as the product to be used in oral appliance therapy. The recommendation to use COAT™ as first line treatment and to offer full reimbursement in early 2010 has transformed the therapeutic side in the treatment of apnea patients in a very short period of time. In the absence of hard data, we believe that the split between CPAP and COAT™ treatment of newly diagnosed patients went in a period of less than four years from 92/8 to around 65/35. The shift to SomnoDent® is continuing and we believe that a 50/50 split between CPAP and COAT™ (similar to Sweden) is likely to occur within the next two to three years. Holland and Sweden are exemplary in their acceptance and support of COAT™; insurers in other European countries are at more or less advanced stages of reviewing the treatment options for sleep disordered patients but the overall trend to recognise COAT™ as an effective treatment option is likely to gain momentum in the future.

The German speaking region consisting of Germany, Switzerland and Austria showed good progress during the year. Over 90% of SomnoMed's business in that region takes place in Germany, which is the most significant health market in Europe. However, most people in Germany are only covered by public health insurance and reimbursement for COAT™ is not available yet. Private insurers are offering various levels of reimbursement but often on a very time consuming case by case evaluation. During the year SomnoMed developed its relationship with two major health care providers, who are looking after SDB patients and are now able to offer SomnoDent® as a treatment alternative to patients rejecting or being non-compliant with CPAP. During the year negotiations with SomnoMed's licensee and service lab Orthosleep 19 GmbH came to a conclusion and agreements were executed towards the end of the financial year to take over the assets and business of Orthosleep19. This is an important step in the expansion of our business in Germany, as it allows us to simplify and rationalise our production, distribution, marketing and sale of SomnoDent® devices in Germany. The takeover became effective on 1 July 2013 with the transfer of the previous owner and all his staff to SomnoMed Germany GmbH.

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

NORTH AMERICA

The North American operation of SomnoMed went through a year marked by expansion, significant changes to our management, staff and operations. It was a watershed year for our US operation dealing with challenges to restructure and improve the dental operations, establish medical departments, developing concepts, educational and sales programs targeting physicians, applying for and receiving FDA approvals for new products and launching G2 to the market.

Following the change of management in mid-2012 and the appointment of a new head and management team in the following months, the need for significant improvements in our Frisco/Dallas laboratory and customer service operation became apparent. Whilst the quality of SomnoDent® products was never in doubt, general customer service and turnaround time of repairs and resets were below the standards practiced in other SomnoMed laboratories around the world, due to our systems and procedures not coping adequately with the increased volumes. In order to rectify this situation decisions were taken to restructure and reorganise the dental management and the Frisco lab, which led to the appointment of a new VP Dental, a new General Manager of Production and Services and a number of new and higher qualified staff. Improvements achieved during the second half of the year are measurable and reactions of our key customers are positive. To assist and further improve processes and customer service and deal with our increased volumes, a new ERP system is currently being installed.

The expansion into the medical markets also required a restructuring of the dental sales team. This also offered the opportunity to identify weaknesses in the sales management and operation, which had built over the last few years. Under the new VP Dental an expanded and experienced sales team has been put together, trained and is fully supervised. Improvements in productivity and efficacy became visible during the last quarter of the financial year 2012/13 and are expected to continue in the current year.

An important decision to broaden the product line was taken after the change of global management in mid-2012. G2 was launched broadly in the US and Canada at the beginning of 2013 and an application for the FDA approval for a mid-price (Medicare) product, the SomnoDent Herbst, was lodged during the second half of the financial year. FDA approval was granted in August 2013 and will also cover a new product, the SomnoDent Herbst Advance, which will be offered from October 2013 onwards. These product additions allow SomnoMed North America to cover not only the upper but also the mid-price segment effectively and offer dentists, HMOs and insurers alternative product-price constellations for their consideration.

Most of the activities in the US were dominated by the implementation of SomnoMed's medical expansion strategy. SomnoMed invested during the year $1.2 million in establishing new medical departments and appointing key executives and staff to those. During the year SomnoMed North America appointed a VP Managed Care and built a Billing Department dealing with insurers and reimbursement of patient claims. A new VP Marketing & Sales with a distinguished professional record in various large medical device corporations joined in March 2013. After a thorough search an outstanding physician was appointed in May 2013 as SomnoMed North America's Chief Medical Officer and a Medical Advisory Board was formed during the year and had its inaugural meeting in July 2013. Medical education concepts and programs and medical sales programs were developed during the year and implementation of these commenced around the end of the financial year. At the beginning of 2013 a first medical sales representative was appointed and was joined by three additional representatives during the following six months. The sales force will be expanded step by step over the next two years on the basis of results achieved in the market.

2012/13 was a challenging year for SomnoMed North America. At the end of the year we believe that our US business has emerged broader, bigger, higher qualified and stronger than it has been at any time in its history. The foundations have been laid to move more and more into the mainstream medical market and for SomnoMed to become the medically accepted partner to treat SDB patients with SomnoDent® COAT™.

APAC

The Asia-Pacific region includes Australia, New Zealand and Japan, where SomnoMed has established its own operation and Singapore, Malaysia and South Korea, where SomnoMed is selling its product through a third party distributor.

The region sold a total 4,075 SomnoDent® units, an increase of 9.2% above the previous year, generating revenues for the group of $2.6 million.

Good progress was made in Japan with a volume increase of almost 50%, albeit from a small base. The majority of the APAC region sales, however, are generated in Australia. After a period of subdued growth the strategy for Australia was reformulated during the course of the year. The increased focus and activities on the medical side of the business was tested and achieved encouraging results, allowing the Australian operation to achieve encouraging growth rates in the fourth quarter of the year.

Whilst APAC only represents 12% of our global sales, the region generates a positive contribution to the group's income. We are currently reviewing the region on a country by country basis and expect increased activities in the financial year 2013/14 as a result of that.

NEW PRODUCT DEVELOPMENT & PRODUCTION

The Sydney based Production & Technology Department is responsible for product innovation and development, global production coordination and quality control. The year was dominated by work involving the broad launch of SomnoMed's G2 product and integration into our central production and the development of the new SomnoDent Herbst line of products.

An important project during the second half of 2012/13 was the regulatory approvals and preparations for the production integration of SomnoMed's compliance measurement system – DentiTrac™, commenced following DentiTrac's™ FDA approval in May 2013. DentiTrac™, which measures patient compliance in short minute intervals and produces important additional data about the patient's sleep during the night, was developed by Braebon, a Canadian company. SomnoMed signed agreements with Braebon for the worldwide use of the DentiTrac™ compliance system consisting of a micro-chip, which is embedded in SomnoDent® devices and a reader, which allows the physician to download data and control the patient's compliance. DentiTrac™ is being launched in the US in October 2013, followed by Europe by the end of the year.

Our manufacturing plant in Manila, Philippines increased its production month after month during the financial year and achieved significant gains in productivity, without compromising on the excellent quality we are able to produce consistently. We are very proud of SomnoMed Philippines being an outstanding, first class operation producing the most sophisticated oral appliance in the world.

BOARD AND MANAGEMENT

The board and its committees met regularly and fulfilled its responsibilities to the full extent. In the review of strategies, concepts and programs, the experience of its members in management, marketing & sales generally and in particular in medical devices and pharmaceutical products was of significant importance in defining final plans, especially in the US. Members of the board were also fully involved in the recruitment of new key positions for SomnoMed North America and their experience and input was invaluable.

FUTURE

In 2013/14, the year ahead, you will see a continuation of the SomnoMed growth story with further expansion into new markets, a broader product line than SomnoMed has ever had before, a credible medical set up in the US with a medically experienced team, an outstanding Chief Medical Officer and a Medical Advisory Board. You will also see SomnoMed selling its products with DentiTrac™, our compliance measurement system, for the first time which allows physicians and insurers to control the compliance of SomnoDent® patients.

We believe SomnoMed is still in the early stages of developing its business as the leader in COAT™, the medically effective, patient friendly and durable alternative to CPAP. Many years of building our business as a respectable main stream medical device company lie ahead and will offer great rewards for all parties involved – our shareholders, management, staff and all our business partners.

Thank you for your ongoing support in 2012/13.

Yours sincerely

Dr Peter Neusadt

Executive Chairman

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2013.

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

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 other significant changes in the nature of the Consolidated Entity's principal activities during the financial year.

Operating Results

The net profit of the Consolidated Entity amounted to $704,675 (2012: $699,745)

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

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

After Balance Date Events

The directors are not 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, other than in July 2013 SomnoMed acquired the business of Orthosleep19 GmbH in Germany. The total consideration amounts to 450,000 Euros (approximately A$560,000) and will be paid 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 200,000 of the total consideration will be paid through the issue of shares in SomnoMed in three equal parcels, on the date of settlement in July 2013 and 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.

Future Developments

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

DIRECTORS' REPORT (CONTINUED)

Directors

Peter Neustadt
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) 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.

He is currently Chairman of mortgage and financial services group Vow Financial Holdings Pty Limited and technology group FireWatch Australia Pty Limited. He is a member of a number of private company boards 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 partner of a healthcare consultancy focused on Asia Pacific and a member of the Board of a large privately owned medical device company. Rob is also a member of the Executive Advisory Council of Nursing & Midwifery at the University of Technology, Sydney (UTS).

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

Lee has had a long career in the health industry, beginning as a pharmacist before joining Merck and Co. Inc., a global pharmaceutical company. During this period, she progressed through a range of roles, beginning in marketing before becoming responsible for reimbursement and pricing of Merck products in Australia.

In 1998 she moved into a regional role and was ultimately Vice President, Asia Merck & Co. Inc. responsible for the general management and strong growth of Merck organisations and their products across Asia reporting directly to the executive responsible for the geographic area in the US. During this time, Lee 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 built and supervised management teams responsible for 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.

In addition she is a member of two NSW government boards which are responsible for the implementation of the Garling recommendations to improve the quality of care in NSW hospitals- the Clinical Excellence Commission and the Agency for Clinical Innovation. She is currently the Vice President Pharmacy Faculty Foundation, University of Sydney.

Company Secretary
Terence Flitcroft B Comm CA FSIA

Terence has been Company Secretary since 1995.

DIRECTORS' REPORT (CONTINUED)

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

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 *	3,496,023	125,000
Robert Scherini	-	50,000
Lee Ausburn	19,499	50,000

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

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 2013 and the number of meetings attended by each director were:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Peter Neustadt	12	12	1	1	2	2
Robert Scherini	12	12	1	1	2	2
Lee Ausburn	12	12	-	-	2	2

DIRECTORS' REPORT (CONTINUED)

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.

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 page 16 of this annual report for more information.

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
3 September 2010	30 September 2013	$0.99	60,000
15 October 2010	31 October 2013	$1.03	125,000
31 October 2011	31 October 2013	$1.37	50,000
26 October 2012	31 October 2015	$0.87	210,000
21 November 2012	31 October 2015	$0.87	225,000
21 November 2012	5 November 2015	$0.92	200,000
			870,000

In addition to the above 870,000 options, a total of 665,000 shares issued by the Company pursuant to the Company's Executive Share and Option Plan have been treated as options (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 17 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
Belgove Pty Limited*	$0.87	125,000
Lee Ausburn	$0.87	50,000
Robert Scherini	$0.87	50,000
Kien Nguyen	$0.92	200,000
		425,000

* Belgove Pty Limited is a company associated with Dr Peter Neustadt.

A total of 465,000 options have been exercised since the end of the end of the last financial year.

A total of 270,000 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 two years for the listed entity, as well as the share price at the end of the respective financial years.

	2013	**2012**
Revenue	$18,581,690	$15,453,116
Net profit	$704,675	$699,745
Share price at year end	$0.91	$0.88

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, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured with each executive and is based predominantly on the forecast growth of the company financial performance and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. Any 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 long-term growth in shareholder wealth.

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

Senior executives receive a superannuation guarantee contribution required by the government, which is currently 9.25%, 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 and 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 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. The KPIs target areas the board believes 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 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.

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 should be 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 2013 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.

Options Issued as part of remuneration for the year ended 30 June 2013

During the year, options were issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are 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
Kien Nguyen	200,000	21 November 2012	27.5 cents	92 cents	5 November 2014	5 November 2015
Lee Ausburn	50,000	21 November 2012	27.9 cents	87 cents	1 November 2014	31 October 2015
Robert Scherini	50,000	21 November 2012	27.9 cents	87 cents	1 November 2014	31 October 2015
Belgove Pty Limited*	125,000	21 November 2012	27.9 cents	87 cents	1 November 2014	31 October 2015

*Belgove Pty Limited is a company associated with Dr Peter Neustadt.

Employment Contracts of Directors and Senior Executives

The employment conditions of the chief executive officer and specified executives are formalised in contracts of employment or its wholly owned subsidiary. All executives are permanent employees of SomnoMed. No contract is for a fixed term. Each 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.

Directors' remuneration

The following table discloses the remuneration of Directors of the company for the year ended 30 June 2013, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short-term Benefits		Post-Employment Benefits			
	Salary & Fees	Other	Superannuation	Termination Benefits	Share Based Payment	Total
Director	**$**	**$**	**$**	**$**		**$**
Peter Neustadt (1)						
-2012	120,000	-	-	-	-	120,000
-2013	190,000	-	-	-	17,432	207,432
Robert Scherini						
- 2012	36,788	-	-	-	-	36,788
- 2013	54,500	-	-	-	6,973	61,473
Lee Ausburn (2)						
- 2012	36,788	-	-	-	-	36,788
- 2013	54,500	-	-	-	6,973	61,473
Graham Hurst						
-2012	45,000	-	4,050	-	-	49,050
Paul Hopper						
-2012	12,263	-	-	-		12,263
TOTAL 2012	**250,839**	**-**	**4,050**	**-**	**-**	**254,889**
TOTAL 2013	**299,000**	**-**	**-**	**-**	**31,378**	**330,378**

(1) Dr Neustadt is a director of Belgove Pty Limited, which received consultancy fees during this and the previous year. Refer Note 29 (b) of the accounts for further information.

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

(3) No Director receives any performance related remuneration.

DIRECTORS' REPORT (CONTINUED)

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 2013, as specified for disclosure by AASB 124. The information in this table is audited.

	Short-term Benefits			Post-Employment Benefits	Share-based Payment			
Executive	**Salary & Fees**	**Bonuses**	**Other**	**Superannuation**	**Options (1)**	**Termination Benefits**	**Total**	**Percentage of Remuneration Performance Related**
Chris Bedford								
-2012	160,550	20,000	-	14,450	-	-	195,000	10%
-2013	170,000	20,000	-	15,300	-	-	205,300	10%
Ralf Barschow (2)								
- 2012	424,512	-	14,148	-	55,640	-	494,300	12%
- 2013	15,500	-	2,124	-	-	146,843	164,467	-
Neil Verdal-Austin								
- 2012	201,009	40,000	-	18,991	-	-	260,000	15%
- 2013	238,532	40,000	-	21,468	-	-	300,000	13%
Kien Nguyen (3)								
- 2013	205,129	-	7,413	-	27,500	-	240,042	-
TOTAL 2012	**786,071**	**60,000**	**14,148**	**33,441**	**55,640**	**-**	**949,300**	**-**
TOTAL 2013	**629,161**	**60,000**	**9,537**	**36,768**	**27,500**	**146,843**	**909,809**	**-**

(1) The option 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) Resigned effective 31 July 2012

(3) Appointed 5th November 2012

For the year ended 30 June 2013 the Company had four (2012 – three) 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 26.

DIRECTORS' REPORT (CONTINUED)

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 $3,000 for non-audit services were paid/payable to the external auditors during the year ended 30th June 2013.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30th June 2013 is set out on page 53 of this annual report.

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

Peter Neustadt

Chairman

24th September 2013

Corporate Governance

The Company formally has adopted corporate governance policies and practices as provided by the ASX Listing Rules and the principles of the ASX Corporate Governance Council. The Directors are of the opinion that the Company has complied with the above-mentioned policies. Set out below is more information on the Company's corporate governance policies.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The Board reviews its composition and assesses nominations for new appointments from time to time to ensure the Board benefits from diversity with regard to gender, skills and experience.

The majority of the Board are to be independent directors, having no business or other relationship that could compromise their autonomy.

The Chairman and Chief Executive Officer roles are to be held by different persons. Dr Neustadt currently holds the role of Executive Chairman. It is intended he will remain in this role until a global CEO is appointed, at which time the abovementioned roles will be filled by different persons.

The Chief Executive Officer may also be a director of the Company. Non-executive directors retire by rotation in accordance with clause 16 of the Constitution.

Newly appointed directors must stand for re-election at the next Annual General Meeting in accordance with clause 16 of the Constitution, with the exception of the Managing Director.

The Board regularly assesses the independence of each non-executive director in the light of interests disclosed by them. The Company does not consider length of tenure as disqualifying criteria for independence.

An independent director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In assessing the independence of each director, the board takes into consideration whether the director's shareholding in the Company, relationships with suppliers, customers and competitors, or tenure as a director of the Company would materially affect the director's ability to exercise unfettered and independent judgement in the interests of the Company's shareholders.

Dr Peter Neustadt holds the position of Chairman. Dr Neustadt is also a major shareholder in the Company.

Given the depth of his company experience and the size of the company he is considered to be excellently placed to serve as Chairman, notwithstanding that pursuant to the ASX recommendation he is not considered an 'independent' Chairman. The Non-Executive Directors meet as required without the Executive Chairman being present. For these reasons the ASX recommendation for an independent Chairman has not been adopted. The Board considers all of its Non-Executive Directors to be independent. The Board regularly assesses the independence of each Non-Executive Director.

Consistent with the emphasis on 'substance over form' advocated by the ASX Guidelines, the Board takes a qualitative approach to materiality, rather than setting strict numerical thresholds, and considers each director's individual circumstances on its merits.

The independence of each director is formally reviewed annually in June each year and at any time when a change occurs that may affect a director's independence. Non-executive directors must formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

The names of independent directors of the company are Lee Ausburn and Robert Scherini.

Independent directors have the right to seek independent professional advice at the company's expense in the furtherance of their duties as directors. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

The Board has created a number of standing committees being the Audit Committee and the Remuneration Committee.

Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the Constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Somnomed Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Role of the Board

The Company recognises that corporate governance is fundamental to the effective operation of the Company. The Board is the pivotal element of corporate governance, and the Company desires its Board to be effective, independent, representative of stakeholders and valuable to the organisation.

The Board's role is to provide governance of the Company in the best interests of shareholders, having regard to the interests of all stakeholders of the Company. The specific responsibilities of the Board include:

- the overall corporate governance of the Company including its strategic direction, financial objectives, and overseeing (or supervision) of control and accountability systems;
- input into and approval of strategic plans and goal and performance objectives, key operational and financial matters, as well as major investment and divestment proposals;
- appointing and removing the chief executive officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the Company Secretary;
- approving the nominations of Directors to the Board;
- ensuring Management maintains a sound system of internal controls to safeguard the assets of the Group;
- monitoring the performance of the Group;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other Board reporting; and
- the approval of the annual and half yearly financial report.

Performance Evaluation

An annual self-assessment of the board and all board members is conducted by the board in such manner, as the board deems appropriate.

Trading Policy

The company's policy regarding directors and employees trading in its securities has been set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the directors' report.

The role of the Audit Committee is to:

- to review proposed reportable financial information and to recommend its approval or otherwise by the Board;
- to review and assess the Company's accounting policies, and determine in consultation with the Chief Financial Officer if any changes to policy should be enacted;
- to communicate with, and monitor the effectiveness of the Company's external auditor; and
- to make recommendations to the Board for the appointment, reappointment or replacement and remuneration of an appropriate independent external auditor.

Remuneration Committee

The Remuneration Committee comprises the full Board and their attendance at meetings of the committee is detailed in the Directors' Report. The responsibilities of the Remuneration Committee include:

- Assessing the skills and competencies required on the Board, from time to time assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole;
- Encouraging and supporting directors' professional development to enhance director competencies;
- Establishing processes for the identification of suitable candidates for appointment to the Board;
- Developing Board succession plans to maintain an appropriate balance of skills, experience and expertise on the Board;
- Considering recommendations for the appointment and removal of Directors;
- Approving remuneration strategy and policies for senior management and selected packaged employees as well as the individual remuneration arrangements and terms of employment for positions/individuals who are direct reports to the Chief Executive Officer (or similar), ensuring that remuneration policies are not only effective, but that they are also reported and explained to shareholders.
- Reviewing the Company's Diversity policies and ensuring compliance with the ASX Diversity Recommendations.

Additional information on the Company's remuneration principles is contained in the Remuneration Report contained in the Directors' Report.

Continuous Disclosure and ASX Announcements

- Directors and Executive Management are to be aware of the continuous disclosure regulations in the ASX Listing Rules.

In the event that any Director or member of management becomes aware of any fact or circumstance which may give rise to a requirement to disclose such information under the Listing Rules, they are required to immediately inform either the Company Secretary, the CEO (or similar), the CFO or the Chairman.

- Prior to disclosure, the CFO will review the information to enable a judgement as to the appropriate disclosure, if any, to be made.
- If there is uncertainty over the requirement to comply with the continuous disclosure requirements, then the Company will seek external legal advice. The Company, through the Company Secretary, will notify the ASX of any information it is determined is required to be disclosed.

Where announcements are made to the market through the ASX, such announcements are pre-vetted by the CFO, Chairman and Board of Directors to ensure that such statements are:

- factual;
- do not omit material information; and
- expressed in a clear and objective manner.

Corporate Reporting

The Company strives to convey to its shareholders and the investing public pertinent information in a detailed, regular, factual and timely manner. Information is communicated to shareholders through: the Annual Financial Report, disclosures to the ASX, notices and explanatory memoranda of Annual General Meetings; and SomnoMed's website at www.somnomed.com.au.

Risk Management

The board is committed to the Senior executives and management are expected to practise sensible risk management in the day-to-day performance of their duties and are required to escalate any material issues, which arise or have the potential to arise. The CEO has the primary responsibility to advise the Board of material risk items, which arise and together the Board and senior management are responsible for taking all reasonable steps to address and mitigate such risk items.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Diversity

Somnomed embraces diversity. Diversity at SomnoMed recognises and values the diverse blend of skills, experiences and perspectives from individuals, irrespective of culture, gender or age. Somnomed does not consider diversity just in a metric capacity and hence measurable objectives may be subjective depending upon the specific circumstance.

SomnoMed regularly reviews policies to ensure that the Company is compliant with the ASX Diversity Recommendations.

Each year the SomnoMed's Annual Report will contain organisation-wide gender statistics. SomnoMed's objective is to ensure that each year its diversity statistics are equal to or an improvement on those of the previous year. A copy of the Diversity Policy is available on SomnoMed's website.

Somnomed employs approximately 175 people across 22 counties, speaking over 8 languages, 47% of whom are female.

SomnoMed's commitment to creating a flexible working environment and to putting people with the appropriate skills in the correct jobs has resulted in a richly diverse workplace. For example, women comprise 33% of Board positions and 19% of senior management roles.

SOMNOMED LIMITED
ACN 003255221
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 $	2012 $
Sales revenue	6	18,488,871	15,246,451
Cost of sales		(6,221,200)	(4,888,898)
Gross margin		**12,267,671**	**10,357,553**
Sales and marketing expenses		(5,542,728)	(4,258,860)
Administrative expenses		(3,468,254)	(2,838,918)
Net foreign exchange gain/(loss) on derivative		(29,629)	20,643
Operating profit before corporate, research and business development expenses, non cash items and income tax		**3,227,060**	**3,280,418**
Corporate, research and business development expenses		(2,460,722)	(2,355,989)
Other revenue and grants	6	-	82,376
Revenue from investment activities	6	92,819	124,289
Share and options expense	26c	(88,183)	(85,879)
Depreciation and amortization		(503,283)	(441,565)
Share of profit of associated company		63,601	75,091
Unrealised foreign exchange loss		(16,305)	(89,905)
Operating profit before income tax	7	**314,987**	**588,836**
Income tax benefit attributable to operating profit	8	389,688	110,909
Operating profit		**704,675**	**699,745**
Profit for the period is attributable to:			
Non-controlling interest		115,882	175,065
Owners of the parent		588,793	524,680
		704,675	699,745
Diluted earnings per share (cents per share)	24	1.39	1.28
Basic earnings per share (cents per share)	24	1.39	1.28

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	2013 $	2012 $
Profit for the period	704,675	699,745
Other comprehensive income:		
Items that may be reclassified subsequently to the income statement		
Foreign exchange translation difference for foreign operations	1,159,226	237,138
Other comprehensive income for the period	1,159,226	237,138
Total comprehensive income	**1,863,901**	**936,883**
Total comprehensive income for the period is attributable to:		
Non-controlling interest	115,882	175,065
Owners of the parent	1,748,019	761,818
	1,863,901	936,883

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2013

	NOTE	2013 $	2012 $
CURRENT ASSETS			
Cash and cash equivalents	9	4,221,299	3,537,587
Trade and other receivables	10	4,383,280	3,741,407
Inventory	11	854,169	500,229
TOTAL CURRENT ASSETS		9,458,748	7,779,223
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,154,789	1,068,831
Intangible assets	14	3,118,040	1,808,536
Investment in associate entity	12	223,396	159,795
Deferred tax asset	8d	2,156,015	1,181,726
TOTAL NON-CURRENT ASSETS		6,652,240	4,218,888
TOTAL ASSETS		16,110,988	11,998,111
CURRENT LIABILITIES			
Trade and other payables	15	3,538,757	3,041,511
Provisions	16	860,660	338,219
TOTAL CURRENT LIABILITIES		4,399,417	3,379,730
NON CURRENT LIABILITIES			
Trade and other payables	15	123,992	12,034
Provisions	16	14,857	-
TOTAL NON-CURRENT LIABILITIES		138,849	12,034
TOTAL LIABILITIES		4,538,266	3,391,764
NET ASSETS		11,572,722	8,606,347
SHAREHOLDERS' EQUITY			
Issued capital	17	26,067,022	25,387,429
Reserves	18	2,431,879	1,150,192
Accumulated losses		(17,537,449)	(18,126,242)
Parent interests		10,961,452	8,411,379
Non-controlling interests	33	611,270	194,968
TOTAL EQUITY		11,572,722	8,606,347

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2011	24,025,829	1,497,396	(670,221)	(18,650,922)	6,202,082	-	6,202,082
Shares issued during the year	1,361,600	-	-	-	1,361,600	-	1,361,600
Recognition of non-controlling interest	-	-	-	-	-	19,903	19,903
Share option reserve on recognition of remuneration options	-	85,879	-	-	85,879	-	85,879
Total other comprehensive income	-	-	237,138	-	237,138	-	237,138
Profit for the period	-	-	-	524,681	524,681	175,065	699,745
Balance at 30 June 2012	25,387,429	1,583,275	(433,083)	(18,126,242)	8,411,379	194,968	8,606,347
Shares issued during the year	679,593	-	-	-	679,593	-	679,593
Recognition of non-controlling interest	-	-	-	-	-	300,420	300,420
Share option reserve on recognition of remuneration options	-	88,183	-	-	88,183	-	88,183
Total other comprehensive income	-	-	1,193,504	-	1,193,504	-	1,193,504
Profit for the period	-	-	-	588,793	588,793	115,882	704,675
Balance at 30 June 2013	26,067,022	1,671,458	760,421	(17,537,449)	10,961,452	611,270	11,572,722

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 $	2012 $
Cash flows from operating activities			
Receipts from customers		18,133,123	14,267,454
Grants received		-	200,376
Payments to suppliers and employees		(17,584,424)	(14,235,936)
Interest received		92,776	115,318
Tax paid		(69,474)	(57,430)
Net cash inflow from operating activities	23	572,001	289,782
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(521,903)	(300,577)
Payments for intangible assets		(100,273)	(211,669)
Proceeds from settlement of forward exchange contract		27,544	-
Payments for property, plant and equipment		(198,016)	(270,170)
Net cash outflow from investing activities		(792,648)	(782,416)
Cash flows from financing activities			
Proceeds from issue of shares		540,754	144,000
Proceeds from lease facility		-	10,145
Net cash inflow from financing activities		540,754	154,145
Net increase/(decrease) in cash held		320,107	(338,489)
Cash at beginning of the financial year		3,537,587	3,948,718
Exchange rate adjustment		363,605	(72,642)
Cash at the end of the financial year	22	4,221,299	3,537,587

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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 2013 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. 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.

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).

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, including government grants, 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.

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 holds 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 as described below.

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.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. The provision is determined on a discounted cash flow basis. Warranty periods on MAS devices are for up to three years.

Make good lease costs

The Consolidated Entity has operating leases over premises that require the premises to be returned to the lessor in their 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 leases.

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 - 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 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. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

Calculation of recoverable amount

Receivables

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

Other Assets

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

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 income statement 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.

Lease incentives under operating leases are recognized as a liability and amortised on a straight line basis over the lease term.

Depreciation

Depreciation is recognised in the income statement 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.

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)).

m. Taxation

Income tax expense in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement 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.

m. Taxation (continued)

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 income statement 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/(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.

Key sources of estimation uncertainty

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

- Intangible assets, Provisions, Employee benefits and Financial instruments

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 standards and interpretations not yet adopted

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.

4. CHANGES IN ACCOUNTING POLICIES

The financial report has been prepared on the basis of a retrospective application of a change in accounting policy relating to advances to executives to acquire shares in the Company. In the previous year all loans relating to the acquisition of shares in the Company were recognised as financial assets and shares issued were recognised at the date of issue in the share capital of the Company, as the accounting standards were not prescriptive in this area.

The Directors believe a more appropriate treatment going forward is to record the shares in the accounts of the Company only when the cash has been received for these shares and accordingly, no financial asset is recognised upon issue of the shares. There may from time to time be employee share based payment expenses recognised upon the issue of the shares.

The new accounting policy was adopted during the year and has been applied retrospectively. Management judges that the change in policy will result in the financial report providing more relevant and no less reliable information given the non-recourse nature of the advances and the likelihood that the quantum of advances may increase over time.

The impact of the change in accounting policy on the Consolidated Balance Sheet, although immaterial is that the non-current receivables, non-current assets, total assets and net assets were reduced by $313,400 as at 30 June 2012. Issued capital, parent interests and total equity were also reduced by $313,400 as at 30 June 2012. There is no impact on the Consolidated Income Statement, Consolidated Statement of Comprehensive Income or Consolidated Cash Flow Statement or on the basic and diluted earnings per share.

5. 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 not 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 is responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

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

Liquidity Risk

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

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

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 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, SKR and PHP.

Over 87% (2012-84%) of the Consolidated Entity's revenues and over 76% (2012-75%) 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. See Note 31 for effective interest rates.

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 approach to capital management during the year.

6. REVENUE	NOTE	2013 $	2012 $
Operating activities			
Other revenue and grants		-	82,376
Interest received - other persons		92,819	124,289
Revenue from sale of goods, net of discounts		18,488,871	15,246,451
		18,581,690	15,453,116

7. PROFIT FOR THE YEAR

Profit for the year is after charging:			
Operating lease rentals		569,117	494,242
Employee benefits expense		7,022,050	5,673,867
Depreciation		374,654	389,605
Amortisation of intellectual property		128,629	51,960
Research and development expenditure		502,223	465,157

8. INCOME TAX EXPENSE

a. The components of tax expense comprise:			
Current tax		(290,692)	(237,068)
Deferred tax	8e	680,380	347,976
		389,688	110,909
b. The prima facie tax on profit/(loss) before income tax is reconciled to the income tax expense as follows:			
Prima facie income tax (expense)/benefit calculated at 30% of loss using the Company's domestic tax rate		(94,496)	(176,651)
Increase/(decrease) in income tax expense due to non-deductible/(assessable) and other items		(184,632)	32,521
Deferred tax asset due to tax losses and temporary differences		668,816	255,039
Income tax (expense)/benefit		389,688	110,909
c. 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(m) occur			
Tax losses		2,382,748	2,887,009
Temporary differences		1,837,059	1,760,116
d. Deferred tax assets			
Recognised deferred tax assets			
Plant and equipment		17,706	(29,593)
Accruals		148,226	73,481
Provisions		33,379	30,188
Other			
Tax loss carry-forwards		1,956,705	1,107,650
Deferred tax assets		2,156,015	1,181,726
e. Movement in temporary differences during the year			
Carrying amount at beginning of financial year		1,181,726	850,791
Recognised in the income statement	8a	680,380	347,976
Foreign exchange adjustment		293,909	17,041
Carrying amount at end of financial year		2,156,015	1,181,726

	NOTE	2013 $	2012 $
9. CASH AND CASH EQUIVALENTS			
Cash at bank and on deposit and money market securities		4,221,299	3,537,587
		4,221,299	3,537,587

10. TRADE AND OTHER RECEIVABLES		
Current		
Trade Debtors	4,185,526	3,485,410
Less provision for doubtful debts	(268,258)	(261,465)
	3,917,268	3,223,946
Other debtors	466,012	496,817
Forward exchange contract	-	20,644
	4,383,280	3,741,407

Current amounts are not interest bearing and are normally settled within 60 to 80 days.

11. INVENTORY		
Raw materials and consumables	854,169	500,229

12. INVESTMENT IN ASSOCIATED COMPANY

Interests are held in the following associated company

Name	Principal Activities	Country of Incorporation	Ownership Interest		Carrying amount of Investment (Note12(a))	
			2013	2012	2013	2012
			%	%	$	$
SMH Biomaterial AG	Material manufacturer	Switzerland	50	50	223,396	159,795

			2013 $	2012 $
a.	**Movements During the Year in Equity Accounted Investment in Associated Company**			
	Balance at beginning of the financial year		159,795	84,704
	Share of associated company's profit after income tax	12b	63,601	75,091
	Balance at end of the financial year		223,396	159,795
b.	**Equity accounted profit of associate is broken down as follows:**			
	Share of associate's profit before income tax expense		72,049	85,901
	Share of associate's income tax expense		(8,448)	(10,810)
	Share of associate's profit after income tax		63,601	75,091

12. INVESTMENT IN ASSOCIATED COMPANY (continued)

c. Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associated Company

	2013 $	2012 $
Current assets	549,308	443,992
Non-current assets	86,581	2
Total assets	635,889	443,994
Current liabilities	47,494	40,770
Non-current liabilities	-	16,755
Total liabilities	47,494	57,525
Net assets	588,395	386,469
Revenues	355,331	335,770
Profit after income tax of associated company	127,205	150,182

13. PROPERTY, PLANT AND EQUIPMENT

	2013 $	2012 $
Property, plant and equipment -at cost	3,201,942	2,601,509
Accumulated depreciation	(2,047,153)	(1,532,678)
	1,154,789	1,068,831
Movements in the carrying amounts of plant and equipment during the current financial year:		
Balance at the beginning of the year	1,068,831	1,140,456
Additions	411,433	270,051
Disposals	(14,531)	(64,100)
Depreciation expense	(374,654)	(389,605)
Effect of movements in foreign exchange	63,710	112,030
Carrying amount at the end of the year	1,154,789	1,068,831

Included in property, plant and equipment are capitalised lease incentives of $363,755. Lease incentives are recognised as an asset and a liability in the financial statements and amortised over the term of the lease.

14. INTANGIBLE ASSETS

	2013 $	2012 $
Patents and trademarks – at cost	519,620	519,620
Accumulated amortisation	(443,826)	(391,866)
	75,794	127,754
Product development expenditure capitalised	453,692	359,592
Accumulated amortisation	(76,669)	-
	377,023	359,592
Goodwill on consolidation*	2,665,223	1,321,190
	3,118,040	1,808,536

*Goodwill on consolidation is translated at 30th June 2013 closing exchange rate, which differs to the goodwill calculations in Notes 21 (c) and (d) as those calculations used the exchange rate on the date of acquisition.

14. INTANGIBLE ASSETS (continued)

Movements in Goodwill

	2013 $	2012 $
Balance at beginning of year	1,321,190	-
Goodwill arising on the acquisition of Goedegebuure Slaaptechniek B.V.	-	1,321,190
Goodwill arising on the acquisition of Orthosom business	567,819	-
Goodwill arising on the acquisition of MAS Nordic business	466,628	-
Foreign currency translation difference	(309,586)	
Balance at end of year	**2,665,223**	**1,321,190**

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 income statement. Goodwill has an indefinite useful life.

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

European Segment	2,665,223	1,321,190

The recoverable amount of the cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cashflow projections over a 10 year period, using an estimated growth rate of 10% per annum and the cashflows discounted at the rate of 15%.

15. TRADE AND OTHER PAYABLES

CURRENT		
Trade creditors, other payables and accruals	3,077,417	2,503,101
Income received in advance	431,447	538,410
Forward exchange contract	29,893	-
	3,538,757	3,041,511

All amounts are not interest bearing and are normally settled on 45 day terms

NON CURRENT		
Other creditors	123,992	12,034

16. PROVISIONS

CURRENT		
Warranty	102,972	117,564
Lease make good	67,212	81,023
Employee entitlements	387,973	139,632
Income tax	302,503	-
	860,660	338,219
NON CURRENT		
Employee entitlements	14,857	-

17. ISSUED CAPITAL

Issued and fully paid ordinary shares		
43,287,839 (2012-42,018,420) ordinary shares		
Balance of issued capital at the beginning of year	25,700,829	24,040,829
Shares issued during period:		
- 72,500 pursuant to exercise of options at 58 cents on 2 October 2012	42,050	-
- 132,500 pursuant to exercise of options at 58 cents on 26 October 2012	76,850	-
- 165,000 pursuant to executive share plan at 79 cents on 26 October 2012	130,350	-
- 260,000 pursuant to exercise of options at 58 cents on 11 September 2012	150,800	-
- 464,395 pursuant to issue of shares at 80.23 cents on 6 December 2012	372,600	-
- 175,024 pursuant to exercise of options at 84.27 cents on 4 January 2013	147,493	-
- 460,000 pursuant to exercise of options at 72 cents on 15 September 2011	-	331,200
- 125,000 pursuant to exercise of options at 80 cents on 31 October 2011	-	100,000
- 160,000 pursuant to executive share plan at 124 cents on 31 October 2011	-	198,400
- 805,664 pursuant to acquisition of subsidiary at 128 cents on 18 January 2012	-	1,031,250
- Less issue costs	-	(850)
Balance of issued capital at end of year	26,620,972	25,700,829
Less shares issued but not recorded in accounts due to revised accounting policy - refer to Note 4.		
- 25,000 shares issued at 60 cents	(15,000)	(15,000)
- 125,000 shares issued at 80 cents	(100,000)	(100,000)
- 165,000 shares issued at 79 cents	(130,350)	-
- 160,000 shares issued at $1.24	(198,400)	(198,400)
- 190,000 shares issued at 58 cents	(110,200)	-
Total advances to executives to acquire shares in the Company	(553,950)	(313,400)
Issued share capital recorded in the Company accounts	**26,067,022**	**25,387,429**

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 2013 there were 1,535,000 (2012: 1,660,000) unissued ordinary shares for which options were outstanding (including 665,000 issued ordinary shares which are treated as options in these accounts).

18. RESERVES	2013 $	2012 $
Share option reserve	1,671,458	1,583,275
Foreign currency translation reserve	760,421	(433,083)
	2,431,879	1,150,192

The share option reserve records items recognised as expenses on valuation of share option issues as remuneration.

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

19. REMUNERATION OF AUDITORS

Remuneration of the Company's auditors for:		
Auditing or reviewing the financial report	43,000	42,500
Other services	3,000	6,000
Remuneration of other auditors for auditing or reviewing the financial reports of subsidiaries	86,268	75,145
Total auditors' remuneration included in operating result	132,268	123,645

20. SEGMENT OPERATIONS

Primary Reporting – Business Segments

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders, which is the only business segment.

Secondary Reporting – Geographical Segments

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**

Geographic location:	Asia Pacific	USA	Europe	Total
2012	**$**	**$**	**$**	**$**
External sales revenue	**2,432,183**	**8,859,987**	**3,954,280**	**15,246,451**
Segment net profit before tax	**585,884**	**1,837,820**	**446,465**	**2,870,169**
Unallocated items				(2,405,622)
Interest Received				**124,289**
Profit before tax				**588,836**
Income tax benefit				110,909
Profit after tax				**699,745**

21. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES

(a) Details of controlled entities are reflected below

Company	Country of Incorporation	Interest % 2013	Interest % 2012
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	65%	100%
Goedegebuure Slaaptechniek BV	Netherlands	50%	50%
SomnoMed Germany GmbH	Germany	100%	-

During the year, the Group disposed of 35% of its interest in SomnoMed France as part of the consideration to acquire the Orthosom business, as disclosed in Note 21(c), reducing its continuing interest to 65%. The proceeds of $266,740 were valued at the diluted net asset value of the company at the time of issuing additional equity.

An amount of $300,420 (being the proportionate share of the carrying amount of the net assets of SomnoMed France) has been transferred to non-controlling interests (see Note 33).

(b) Details of associated entity of SomnoMed Limited

SMH Biomaterial AG	Switzerland	50%	50%

21. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES (continued)

(c) Businesses acquired during the year

SomnoMed acquired the Orthosom business in France on 30th November 2012.

(i) The purchase was satisfied by the issue of 35% of the shares in SomnoMed France and cash.

Purchase consideration	**2013 $**
Cash paid to vendors	372,554
Issue of shares in SomnoMed France	266,740
Total purchase consideration	639,294
Fair value of net identifiable assets	(71,475)
Goodwill (at the date of acquisition)	567,819

Goodwill arose on acquisition of Orthosom because the acquisition included customer knowledge and market relationships, which could not be recognized separately from goodwill.

(ii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:	**Acquiree's carrying amount $**	**Fair Values $**
Property, plant and equipment	45,196	45,196
Inventory	45,017	45,017
Provision for employee benefits	(18,738)	(18,738)
100% net identifiable assets acquired	71,475	71,475

(iii) Revenue and Net loss after tax of SomnoMed France included in the consolidated revenue and results since the acquisition date amounted to $260,512 and ($240,557) respectively. The operations of the business acquired have been different following the acquisition by SomnoMed and therefore it is not possible to determine the revenue or result which would have eventuated had the business been held for the entire financial year.

(d) Businesses acquired during the year

SomnoMed acquired the business of MAS Nordic in Stockholm, Sweden on 1 January 2013.

(i) The purchase was satisfied by the issue of SomnoMed shares of A$147,493, cash and deferred consideration.

Purchase consideration	**$**
Cash paid to vendors	149,334
Issue of shares in SomnoMed Limited	147,493
Deferred consideration	149,347
Total purchase consideration	446,174
Fair value of net identifiable liabilities	20,454
Goodwill (at the date of acquisition)	466,628

Goodwill arose on acquisition of MAS Nordic because the acquisition included customer knowledge and market relationships, which could not be recognized separately from goodwill.

Management has placed no value on the contingent consideration that may become payable in relation to this acquisition as set out in Note 28 (ii) as such consideration is dependent upon future events over which the Company has limited control.

(ii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:	**Acquiree's carrying amount $**	**Fair Values $**
Provision for employee benefits	(20,454)	(20,454)
100% Net identifiable assets/(liabilities) acquired	(20,454)	(20,454)

(iii) Revenue and Net loss after tax of SomnoMed Nordic included in the consolidated revenue and results since the acquisition date amounted to $753,300 and ($67,506) respectively. The operations of the business acquired have been different following the acquisition by SomnoMed and therefore it is not possible to determine the revenue or result which would have eventuated had the business been held for the entire financial year.

22. RECONCILIATION OF CASH	2013 $	2012 $
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	4,221,299	3,537,587
	4,221,299	3,537,587

23. RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2013	2012
Operating Profit after income tax	704,675	699,745
Share and Option expense	88,183	85,880
Share of associate company profit	(63,601)	(75,091)
Net exchange differences	45,933	69,260
Depreciation and amortization	503,283	441,565
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(217,702)	(308,828)
(Increase)/Decrease in receivables	(384,108)	(977,685)
Increase/(Decrease) in other payables	349,976	509,350
Increase/(Decrease) in provisions	184,252	193,447
(Increase)/Decrease in deferred tax assets	(638,890)	(347,861)
Net Cash inflow from operating activities	572,001	289,782

24. EARNINGS PER SHARE

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

	2013	2012
Net profit used in calculating basic and diluted earnings per share	$588,793	$524,680
Basic profit per share (cents per share)	1.39	1.27
Diluted profit per share (cents per share)	1.39	1.28
Weighted average number of shares used in the calculation of diluted earnings per share	42,402,661	41,314,269
Weighted average number of shares used in the calculation of basic earnings per share	42,269,254	41,136,428
Shares on issue at year end per accounts (refer Note 17)	42,633,839	41,708,420
Number of options on issue at year end(including shares treated as options-refer Note 17) – each option is exercisable at between 58 cents and $1.37 per share and converts to one ordinary share	1,535,000	1,660,000

25. CAPITAL AND LEASING COMMITMENTS

		2013 $	2012 $
Operating Lease Commitments			
Non-cancellable operating leases contracted for but not capitalised in the financial statements			
Payable			
—	not later than 1 year	559,013	450,388
—	later than 1 year but not later than 5 years	1,293,841	962,720
—	later than 5 years	237,725	-
		2,090,579	1,413,108

Included in the operating lease commitments are non-cancellable property leases with terms of between two years and five years. All leases have rent payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased by between 2.6% and 5% per annum. No option exists to renew the leases at the end of the terms, except for the lease in Frisco, Dallas, which allows an option to extend the lease term by a further 5 years.

The leases allow for subletting of all lease areas.

26. SHARE BASED PAYMENTS

(a) Movements in the number of share options held by employees are:	2013 #	2012 #
Opening balance	1,660,000	1,342,500
Granted during the year	550,000	510,000
Exercised during the year	(465,000)	(385,000)
Shares issued and treated as options in these accounts (refer Note 17)	355,000	310,000
Lapsed during the year	(790,000)	(117,500)
Closing Balance	1,310,000	1,660,000

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

Grant Date	Expiry and Exercise Date	Exercise Price		
3 September 2009	30 September 2011 30 September 2012	$0.58	-	332,500
15 October 2009	31 October 2011 31 October 2012	$0.58	-	132,500
3 September 2010	30 September 2012 30 September 2013	$0.99	-	260,000
3 September 2010	30 September 2012 30 September 2013	$0.99	60,000	90,000
1 October 2010	31 October 2012 31 October 2013	$1.03	125,000	125,000
19 September 2011	30 September 2013 30 September 2014	$1.58	-	260,000
31 October 2011	1 October 2013 30 October 2013	$1.37	50,000	150,000
21 November 2012	5 November 2014 5 November 2015	$0.92	200,000	-
26 October 2012	1 October 2014 31 October 2015	$0.87	210,000	-
Shares treated as options in accounts (refer Note 17)			665,000	310,000
			1,310,000	1,660,000

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

26. SHARE BASED PAYMENTS (continued)

(c) Options

The options outstanding at 30 June 2013 had a weighted average exercise price of $0.89(2012: $1.01) and a weighted average remaining contractual life of 1.23 years (2012: 1.17 years). Exercise prices range from $0.58 to $1.37 in respect of options outstanding at 30 June 2013 (2012: $0.58 to $1.58 range).

The weighted average fair value of the options granted during the year was $0.2778 (2012: $0.2477).

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

	2013	**2012**
Weighted average exercise price	$0.8857	$1.49
Weighted average life of the option	3.00 years	2.61 years
Underlying share price between	$0.87-$0.92	$1.37-$1.58
Expected share price volatility	50.32	36.291
Risk free interest rate	3.5%	4.5%

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 income statement is $88,183 (2012: $85,879), that relates, in full, to equity-settled share-based payment transactions.

(d) Shareholdings

Number of Shares held by Key Management Personnel, including shares held by associated entities

	Balance 1.7.12	**Net Change /Other**	**Balance 30.6.13**
Peter Neustadt	3,496,023	-	3,496,023
Lee Ausburn	19,499	-	19,499
Robert Scherini	-	-	-
Kien Nguyen*	-	-	-
Ralf Barschow**	260,000	(260,000)	-
Christopher Bedford(1)	75,000	100,000	175,000
Neil Verdal-Austin(2)	365,000	235,000	600,000
	4,215,522	75,000	4,290,522
Less shares treated as options in these accounts (1) & (2)	(300,000)	(325,000)	(625,000)
	3,915,522	(250,000)	3,665,522

* appointed 5 November 2012

** resigned effective 31 July 2012

(1) 175,000 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 29(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(2) 450,000 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 29(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(e) Share based payments

There were no other share-based payment arrangements in the year to 30 June 2013, other than shares and options issued to directors and executives pursuant to the Company's Executive Share and Option Plan as detailed in Note 26(f).

26. SHARE BASED PAYMENTS (continued)

(f) Options and Rights Holdings

Number of options held by Key Management Personnel, including options held by associated entities

	Balance 1.7.12	Granted as Remuneration/ (Exercised or Lapsed/Expired)	Balance 30.6.13	Total Vested 30.6.13	Total Exercisable	Total Un-exercisable
Ralf Barschow [(1)]	520,000	(520,000)	-	-	-	-
Neil Verdal-Austin	250,000	(125,000)	125,000	125,000	125,000	-
Christopher Bedford	100,000	(50,000)	50,000	50,000	50,000	-
Peter Neustadt [(2)]	-	125,000	125,000	125,000	-	125,000
Robert Scherini	-	50,000	50,000	50,000	-	50,000
Lee Ausburn	-	50,000	50,000	50,000	-	50,000
Kien Nguyen	-	200,000	200,000	-	-	200,000
Total	870,000	(270,000)	600,000	400,000	175,000	425,000
Issued shares treated as options in these accounts (refer Note 26(e))						
Neil Verdal-Austin	225,000	225,000	450,000	450,000	-	-
Christopher Bedford	75,000	100,000	175,000	175,000	-	-
Total	1,170,000	55,000	1,225,000	1,025,000	175,000	425,000

[(1)] 260,000 exercised and 260,000 lapsed

[(2)] Held by Belgove Pty Limited a company associated with Dr Peter Neustadt

27. EVENTS SUBSEQUENT TO BALANCE 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 in July 2013 SomnoMed acquired the business of Orthosleep19 GmbH in Germany. The total consideration amounts to 450,000 Euros (approximately A$560,000) and will be paid 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 200,000 of the total consideration will be paid through the issue of shares in SomnoMed in three equal parcels, on the date of settlement in July 2013 and 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.

28. CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2013 no contingent liabilities or capital commitments existed, other than

i. the remaining 50% of the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V will be acquired by SomnoMed over a period of 5 years in four equal annual portions commencing in April 2014. The price for these 12.5% tranches will be linked to the future net profits generated by this business in the Netherlands and will be payable half in cash and half in shares in SomnoMed Limited and

ii. pursuant to acquiring the MAS Nordic business in January 2013 subject to the performance of SomnoMed's business in the Nordic region, additional SomnoMed shares to the value of approximately A$86,000 may be issued over the next three years as part of this acquisition.

29. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

(a) Controlled entities

Interests in controlled entities are disclosed in Note 21. 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.

	2013 $	2012 $
The aggregate amount included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
License fees	2,612,915	2,364,997
Revenue from provision of services	545,179	500,511
Interest income	152,889	96,060
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current receivables	14,041,496	9,097,876
Less impairment	(5,292,253)	(3,589,257)
	8,749,243	5,508,619

(b) Director related entities

During the year consultancy fees of $190,000 (2012: $120,000) were paid/are payable to Belgove Pty Limited, a company associated with Dr Neustadt and consultancy fees of $54,500 (2012: $36,788) were paid to Leedoc Pty Limited, a company associated with Ms Ausburn.

(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 26. Directors acquired these shares or options through the public offering, direct issue or on-market purchase.

29. RELATED PARTY DISCLOSURES (continued)

	2013	2012
	$	$
(d) Loans to key management personnel		
Balance beginning of the year	488,200	-
Loans advanced	220,000	488,200
Loans repaid	(187,200)	-
Interest charged – advance	40,623	38,080
Interest received	(40,623)	(38,080)
Balance end of the year	521,000	488,200
Provision for impairment	-	-
The highest amount of indebtedness during the reporting period for each key management personnel who received the loans:		
Ralf Barschow *	-	187,200
Neil Verdal-Austin	375,500	224,000
Christopher Bedford	145,500	77,000

*Received in full during reporting period.

Non-recourse advances to executives to acquire shares issued in the Company are not recorded in the Company's accounts in accordance with the changed accounting policy as set out in Note 4 to the accounts. These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards. The total of such loans is reflected in Note 17. These loans are repayable the earlier of two years from the provision of the advances and the date the borrower ceases to be the legal owner of the shares. Loans included above incurred interest at 7.8% p.a. payable in advance.

30. 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	
Peter Neustadt	Executive Chairman
Lee Ausburn	Director — Non-Executive
Robert Scherini	Director — Non-Executive
Kien Nguyen	President SomnoMed Inc. (appointed 5 November 2012)
Ralf Barschow	Chief Executive Officer (resigned effective 31 July 2012)
Neil Verdal-Austin	Chief Financial Officer and Executive Vice President Asia Pacific
Christopher Bedford	General Manager – Production and Technology

(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 26.

31. FINANCIAL INSTRUMENTS

Credit Risk

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:

	2013 $	2012 $
Cash and equivalents	4,221,299	3,537,587
Trade receivables	3,917,268	3,223,946
Other receivables - current	466,012	517,461
	8,604,579	7,278,994

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

United States	1,528,398	1,241,629
Europe	2,102,331	1,757,177
Asia Pacific	286,539	225,140
	3,917,268	3,223,946

Impairment Losses

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

Gross receivables

Past due 0 – 30	2,758,874	2.321,429
Past due 31 – 60	359,108	380,448
Past due 60 – 90	212,383	191,633
Past due 90 days and over	855,161	591,900
	4,185,526	3,485,410
Impairment	(268,258)	(261,464)
Trade receivables net of impairment loss	3,917,268	3,223,946

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

Balance at 1 July	(261,464)	(63,709)
Impairment movement	16,680	(48,542)
Acquisition of subsidiary	-	(154,999)
Exchange effect	(23,474)	5,785
Balance at 30 June	(268,258)	(261,464)

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(h).

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.

31. FINANCIAL INSTRUMENTS (continued)

Currency Risk

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

Amounts local currency	SGD	PHP	JPY	USD	EUR	CHF	SKR
2013							
Cash and cash equivalents	1,723	59,587	37,675	1,796,275	1,357,155	4,479	-
Trade receivables	-	-	20,309	1,528,398	2,102,331	-	-
Trade payables	-	(211,408)	(9,788)	(621,397)	(395,001)	-	-
Gross balance sheet exposure	**1,723**	**(151,821)**	**48,196**	**2,703,276**	**3,064,485**	**4,479**	**-**

Amounts local currency	SGD	PHP	JPY	USD	EUR	CHF	SKR
2012							
Cash and cash equivalents	-	27,016	18,491	1,323,270	413,037	2,440	29,823
Trade receivables	-	-	15,602	1,241,629	1,757,177	-	-
Trade payables	-	(17,859)	(10,052)	(488,423)	(766,909)	-	-
Gross balance sheet exposure	**-**	**9,157**	**24,041**	**2,076,476**	**1,403,305**	**2,440**	**29,823**

SomnoMed enters into forward exchange contracts to hedge its exposure to the foreign currencies. The amounts of forward cover taken are in accordance with approved policy and internal forecasts.

The following table sets out the gross value to be received (sell) or paid (buy) under forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Foreign exchange rates		Gross Value	
	2013	2012	2013	2012
Sell USD				
Not later than one year	-	-	-	508,543
Weighted average exchange rates contracted	-	0.9832	-	-
Sell EUR				
Not later than one year	-	-	303,841	-
Weighted average exchange rates contracted	0.8228	-	-	-
Buy EUR				
Not later than one year	-	-	333,734	-
Weighted average exchange rates contracted	0.7491	-	-	-

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

	Average Rate		Reporting date spot rate	
AUD = 1	2013	2012	2013	2012
USD	1.0215	1.0248	0.9137	1.0404
EUR	0.7878	80.98	0.7022	0.7742
JPY	88.76	81.80	90.62	81.63
PHP	42.372	43.20	39.414	44.398

31. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

Profile

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

Carrying amount	2013	2012
	$	$
Variable rate instruments		
Financial assets	494,222	1,358,385

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

2013	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.84%	4,221,299	4,221,299	-	-
Receivables		4,383,280	4,383,280	-	-
Payables	-	(3,662,749)	(3,538,757)	(123,992)	-
Total	-	4,941,830	5,065,822	(123,992)	-

2012	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.58%	3,537,587	3,537,587	-	-
Receivables	-	3,741,407	3,741,407	-	-
Payables	-	(3,053,545)	(3,041,511)	(12,034)	-
Total	-	4,225,449	4,237,483	(12,034)	-

Fair Values

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

	2013		2012	
	$		$	
Consolidated	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and equivalents	4,221,299	4,221,299	3,537,587	3,537,587
Trade and other receivables - current	4,383,280	4,383,280	3,720,763	3,720,763
Financial assets/(liabilities)at fair value through profit or loss:				
- Forward exchange contract	(29,893)	(29,893)	20,644	20,644
Trade and other payables - current	(3,508,864)	(3,508,864)	(3,041,511)	(3,041,511)
Trade and other payables - non current	(123,992)	(123,992)	(12,034)	(12,034)
Total	4,941,830	4,941,830	4,225,449	4,225,449

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.

31. FINANCIAL INSTRUMENTS (continued)

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	Total
30 June 2013		
Derivative financial assets/(liabilities)		
- Forward exchange contracts	(29,893)	(29,893)
30 June 2012		
Derivative financial assets - Forward exchange contracts	20,644	20,644

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

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 2013, it is estimated that a general increase of one percent in interest rates would have increased the Consolidated Entity's profit after income tax and equity by approximately $39,000 and for the year ended 30 June 2012 the effect would have been to increase the Consolidated Entity's profit after income tax and equity by approximately $40,000. A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's profit for the year ended 30 June 2013, and decrease the Consolidated Entity's equity by approximately $196,000. For the year ended 30 June 2012 the effect would have been to increase the Consolidated Entity's profit and increase the equity by $247,000.

It is estimated that a general decrease of ten percent in the value of the AUD against other foreign currencies would have increased the Consolidated Entity's profit for the year ended 30 June 2013, and increase the Consolidated Entity's equity by approximately $286,000. For the year ended 30 June 2012 the effect would have been to decrease the Consolidated Entity's profit and decrease the equity by $476,000.

32. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2013, the parent company was SomnoMed Limited.

Result of the parent entity	**2013**	**2012**
	$	**$**
Net profit/(loss)	1,291,006	(207,169)
Other comprehensive income/(loss)	-	-
Total comprehensive income	**1,291,006**	**(207,169)**
Financial position of the parent entity at year end		
Current assets	1,274,301	7,888,517
Total assets	11,000,998	9,214,902
Current liabilities	755,697	714,982
Total liabilities	755,697	714,982
Total equity of the parent entity comprising of:		
Issued capital	26,067,022	25,387,429
Share option reserve	1,671,458	1,583,275
Accumulated losses	(17,493,179)	(18,784,184)
Total Equity	**10,245,301**	**8,499,920**

Parent entity contingencies

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

33. NON-CONTROLLING INTERESTS

Balance at beginning of year	194,968	-
Share of profit for the year	115,882	175,065
Non –controlling interests arising on the acquisition of Goedegebuure Slaaptechniek B.V.	-	19,903
Non –controlling interests arising on the acquisition of Orthosom business	300,420	-
Balance at end of year	**611,270**	**194,968**

SOMNOMED LIMITED
ACN 003255221
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 20 to 50 are in accordance with the Corporations Act 2001:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the company and Consolidated Entity;
2. The Executive Chairman and Chief Finance Officer have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. The financial statements and notes for the financial year comply with the Accounting Standards; and
   c. The financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Peter Neustadt

Chairman

24th September 2013

STIRLING INTERNATIONAL
CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOMNOMED LIMITED

Report on the Financial Report

We have audited the accompanying financial report of SomnoMed Limited (the company) and the consolidated entity, which comprises the consolidated balance sheet as at 30 June 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 2a, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of SomnoMed Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOMNOMED LIMITED

Auditor's Opinion

In our opinion:

a. the financial report of SomnoMed Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2a.

Report on the Remuneration Report

We have audited the Remuneration Report included at pages 11 to 14 of the report of the directors for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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 the Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of SomnoMed Limited for the year ended 30 June 2013, complies with s 300A of the Corporations Act 2001.

Stirling International

Chartered Accountants

Peter Turner

285 Clarence St Sydney 2000

24th September 2013

Liability limited by a scheme approved under Professional Standards Legislation

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SOMNOMED LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Stirling International

Chartered Accountants

Peter Turner

24th September 2013

285 Clarence St Sydney 2000

ADDITIONAL INFORMATION

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of Holding)	**Shareholders**	**Shares**
1-1,000	371	105,799
1,001-5,000	226	650,759
5,001-10,000	113	946,698
10,001-100,000	197	5,958,998
100,001 and over	47	35,625,585
	954	**43,287,839**

b. The number of shareholdings held in less than marketable parcels is 264

c. The names of the substantial shareholders listed in the holding company's register as at 16 September 2013 are:

Shareholder	**Number of Ordinary Shares**	**Percentage**
Dottie Investments Pty Ltd	3,902,779	8.995
Belgove Pty Limited & P Neustadt Holdings Pty Limited	3,496,023	8.058
Golden Words Pty Ltd & Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	3,306,978	7.622
TDM Asset Management Pty Ltd & Associates	3,200,634	7.377
Schroder Investment Management Australia Limited	2,940,369	6.777
National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust	2,761,544	6.365

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 16 September 2013**

Name		No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	National Nominees Limited	6,854,190	15.798
2.	Dottie Investments Pty Ltd	3,902,779	8.995
3.	Belgove Pty Limited	3,371,023	7.770
4.	UBS Wealth Management Australia Nominees Pty Ltd	3,339,561	7.697
5.	Golden Words Pty Ltd	2,488,215	5.735
6.	Carnethy Evergreen Pty Ltd	1,350,976	3.114
7.	Ginga Pty Ltd	1,227,370	2.829
8.	Ms Georgia Quick & Mr Rodney Victor Palmisano	1,106,000	2.549
9.	R E M Medical Pty Ltd	1,051,031	2.422
10.	Equity Trustees Limited	868,300	2.001
11.	Timbina Pty Ltd	861,737	1.986
12.	Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	818,763	1.887
13.	Mr Neil Robert Verdal-Austin	600,000	1.383
14.	Atroop Pty Ltd	650,000	1.498
15.	BNP Paribas Noms Pty Ltd	549,456	1.266
16.	Orthosom	464,395	1.070
17.	J P Morgan Nominees Australia Limited	433,518	0.999
18.	Mr Graham Perrin Hurst & Mrs Susan Margaret Hurst	407,500	0.939
19.	Tunend Pty Ltd	382,000	0.880
20.	Mrs Cynthia Anne Batchelor	380,482	0.877
		31,107,296	**71.697**

CORPORATE DIRECTORY

Registered Office
Level 3
20 Clarke St Crows Nest 2065
Telephone: (02) 9467 0400

Directors

Peter Neustadt	Executive Chairman
Lee Ausburn	Non-executive Director
Robert Scherini	Non-executive Director

Chief Financial Officer
Neil Verdal-Austin

Company Secretary
Terence Flitcroft

Patent Attorneys
Spruson & Ferguson

Banker
Westpac Banking Corporation

Auditors
Stirling International

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