



SOMNOMED LIMITED
ABN 35 003 255 221
ASX Preliminary final report – 30 June 2009

Lodged with the ASX under Listing Rule 4.3A

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SomnoMed Limited
Year ended 30 June 2009
Results for Announcement to the Market

				2009	2008
Revenue from ordinary activities	Increase by 4,191,008	Increase by 104%	to	\$8,223,570	\$4,032,562
Loss from ordinary activities after tax attributable to members	Decrease by 912,446	Decrease by 33.4%	to	\$1,818,673	\$2,731,119
Net Loss for the period attributable to members	Decrease by 912,446	Decrease by 33.4%	to	\$1,818,673	\$2,731,119

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2009 are as follows:

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

The Board has resolved that no dividend will be paid for the year ended 30 June 2009.

Record date for determining entitlements to the dividend

N/A

Sales revenues double in 2009

SomnoMed Limited achieved a growth in its sales revenues of 112% in FY 2008/09 to reach total sales revenues of \$7.7 million for the year. The strong increase in revenues reflects a growth in unit sales of 74% compared to the previous year; a total of 12,254 units were sold, compared to 7,047 in the previous year.

The gross margin more than doubled from less than \$2.0 million in FY 07/08 to \$4.06 million in FY 08/09. The upward trend in sales, and operating contributions continued throughout the year on a quarter by quarter basis and allowed SomnoMed Limited to cut back its losses (before interest, non cash items and tax) from a loss of \$1.07 million for the first half of the year, to a loss for the second half of \$0.44million. As a consequence the total loss for the full year was reduced from \$2.34 million in FY 2007/08 to \$1.51 million in FY 2008/09.

Whilst the loss for the full fiscal year was reduced by 35.4%, the second half year accelerated and the reduction in losses, compared to the same period in the previous year, was over 58%; ongoing growth and cost management allowed the company to achieve its first cash flow positive result ever in the fourth quarter.

The year gone by confirmed the growing demand for SomnoMed's products treating sleep disordered breathing, in particular obstructive sleep apnea. Nine consecutive quarters of volume growth have now been recorded. It is telling that the volume of 3,655 units sold in the last three months of this year is just 229 units less than the total volume sold in the whole year of 2006/07, and only 12% (477 units) less than the total sales generated in the six months period to June 2008.

Corporate overheads and business development expenses, which include research & development, grew from \$1.485 million in FY 2007/08 to \$1.786 million in FY 2008/09. Higher corporate and business development costs are primarily due to an enlarged head office team and the cost of managing a fast growing global operation in more than 20 countries across four continents.

During FY 2008/09 Europe and North America were the main growth areas. The US share of MAS sales for the year increased from 59.0% to 66.3%. The share of MAS sales generated in Europe grew from 8.1% in FY 2007/08 to 14.9%, whereas the Asia-Pacific share reduced to less than 20% of the total MAS sales, despite growth in its Australian sales.

In the light of the significant growth achieved in 2008/09, despite the adverse economic circumstances due to the GFC, the Board of SomnoMed Limited takes the view that SomnoMed's future growth prospects in an improved economic environment in its core markets are bright. The investment the company has made in the last two years, building a solid basis for a global growth business, should allow SomnoMed to move confidently and consistently forward as the leading dental sleep medicine company in the world.

SomnoMed Limited
Preliminary consolidated income statement
For the year ended 30 June 2009

	2009	2008
	\$	\$
Sales Revenue	7,737,777	3,658,173
Cost of Sales	(3,678,614)	(1,701,488)
Gross Margin	4,059,163	1,956,685
Sales & marketing expenses	(2,597,795)	(1,485,443)
Administrative expenses	(1,442,837)	(1,405,215)
Operating Profit/(Loss) before corporate and business development expenses, non cash items and income tax	18,531	(933,973)
Corporate and business development expenses	(1,786,402)	(1,485,338)
Other revenue & grants	257,697	80,000
(Loss) before interest, non cash items and income tax	(1,510,174)	(2,336,311)
Interest Received	228,096	294,389
Finance expenses	-	(9,471)
(Loss) before non cash items and income tax	(1,282,078)	(2,054,393)
Share and option expense	(139,980)	(110,760)
Depreciation & amortization	(318,781)	(423,356)
Loss on transfer of intellectual property	(53,064)	(100,217)
Share of loss of associated company	(8,977)	(42,393)
Operating (Loss) before income tax	(1,802,880)	(2,731,119)
Income tax expense/(benefit) attributable to Operating (Loss)	(15,793)	-
Operating (Loss) attributable to members of the parent entity	(1,818,673)	(2,731,119)
Diluted earnings per share (cents per share)	(0.2)	(0.4)
Basic earnings per share (cents per share)	(0.2)	(0.4)

SomnoMed Limited
Preliminary consolidated balance sheet
As at 30 June 2009

	2009	2008
	\$	\$
CURRENT ASSETS		
Cash	4,008,934	5,432,532
Receivables	1,426,190	746,075
Inventory	83,756	32,972
TOTAL CURRENT ASSETS	<u>5,518,880</u>	<u>6,211,579</u>
NON-CURRENT ASSETS		
Property, plant and equipment	235,490	457,232
Intangible Assets	283,634	335,594
TOTAL NON-CURRENT ASSETS	<u>519,124</u>	<u>792,826</u>
TOTAL ASSETS	<u>6,038,004</u>	<u>7,004,405</u>
CURRENT LIABILITIES		
Payables	1,455,862	835,082
Provisions	248,896	160,647
TOTAL CURRENT LIABILITIES	<u>1,704,758</u>	<u>995,729</u>
NON CURRENT LIABILITIES		
TOTAL LIABILITIES	<u>1,704,758</u>	<u>995,729</u>
NET ASSETS	<u>4,333,246</u>	<u>6,008,676</u>
SHAREHOLDERS' EQUITY		
Contributed equity	23,270,829	23,270,829
Reserves	1,239,020	1,095,777
Accumulated losses	(20,176,603)	(18,357,930)
TOTAL EQUITY	<u>4,333,246</u>	<u>6,008,676</u>

SomnoMed Limited
Preliminary consolidated statement of changes in equity
For the year ended 30 June 2009

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
Balance at 1st July 2007	18,572,695	1,036,179	(68,947)	(15,626,811)	3,913,116
Share issued during the year	4,874,500	-	-	-	4,874,500
Costs associated with share issues	(176,366)	-	-	-	(176,366)
Share option reserve on recognition of remuneration options	-	110,760	-	-	110,760
Adjustments from translation of foreign controlled entities	-	-	17,785	-	17,785
Profit/(loss) attributable to members of parent entity	-	-	-	(2,731,119)	(2,731,119)
Balance at 30 June 2008	23,270,829	1,146,939	(51,162)	(18,357,930)	6,008,676
Share option reserve on recognition of remuneration options	-	139,980	-	-	139,980
Adjustments from translation of foreign controlled entities	-	-	3,263	-	3,263
Profit/(loss) attributable to members of parent entity	-	-	-	(1,818,673)	(1,818,673)
Balance at 30th June 2009	23,270,829	1,286,919	(47,899)	(20,176,603)	4,333,246

SomnoMed Limited
Preliminary consolidated cash flow statement
For the year ended 30 June 2009

	2009	2008
	\$	\$
Cashflows from operating activities		
Receipts from customers	7,402,424	3,388,936
Grants	332,697	-
Payments to suppliers and employees	(9,276,477)	(5,796,344)
Interest received	223,933	294,389
Interest paid	-	(2,270)
Net cash inflow/(outflow) from operating activities	<u>(1,317,423)</u>	<u>(2,115,289)</u>
Cashflows from investing/financing activities		
Payments to associated company	(193)	-
Proceeds from issue of shares	-	4,598,134
Payments for intellectual property	(53,064)	(75,595)
Repayments of borrowings	-	(91,777)
Payments for investments	(8,977)	(42,393)
Payments for property, plant and equipment	(43,941)	(45,229)
Net cash inflow/(outflow) from investing/financing activities	<u>(106,175)</u>	<u>4,343,140</u>
Net increase/(decrease) in cash held	(1,423,598)	2,227,851
Cash at the beginning of the financial year	5,432,532	3,204,681
Cash at the end of the financial year	<u>4,008,934</u>	<u>5,432,532</u>

The cash balances at 30 June 2008 and 30 June 2009 are represented by cash at bank and money market securities.

**RECONCILIATION OF OPERATING (LOSS) AFTER INCOME
TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

Operating (Loss) after income tax	(1,818,673)	(2,731,119)
Share and Option expense	139,980	110,760
(Profit)/Loss from sale of fixed asset	(1,137)	-
Loss on transfer of intellectual property	53,064	100,217
Share of associate company loss	8,977	42,393
Net exchange differences	3,264	11,948
Depreciation and amortization	318,781	423,356
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(50,784)	(25,234)
(Increase)/Decrease in receivables	(679,922)	(364,983)
Increase/(Decrease) in other payables	620,778	296,480
Increase/(Decrease) in provisions	88,249	20,893
	<u>(1,317,423)</u>	<u>(2,115,289)</u>

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2009

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 2009 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity produces and sells a mandibular advancement splint.

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.

b. Income Recognition

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

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2009

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.

SomnoMed Limited
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for the year ended 30 June 2009

f. 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 two years.

Make good lease costs

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

Research and development expenditure

Research and Development costs are charged to profit/(loss) before income tax as incurred.

Other intangible assets

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

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 year

g. Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy (i)) 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.

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2009

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.

h. 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 (g)). 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.

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.

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2009

The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	1 – 3 years
Plant & equipment	3 – 20 years

i. 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.

j. 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.

k. Receivables

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

l. 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.

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.

SomnoMed Limited
Notes to the preliminary consolidated financial statements
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m. Payables

Trade and other payables are stated at amortised cost.

n. Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method.

o. 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 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.

p. Segment Reporting

A segment is a distinguishable component of the Consolidated Entity that is engaged either in providing products or services within a particular economic environment (geographical segment), or in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. The Consolidated Entity's primary format for segment reporting is based on geographical segments. The geographical segments are determined on the Consolidated Entity's management and internal reporting structure.

q. 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

r. Share Capital

Ordinary shares

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

s. New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

AASB 3 Business Combinations

AASB 8 Operating Segments;

AASB 101 Presentation of Financial Statements (Revised);

AASB 127 Consolidated and Separate Financial Statements; and

AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations;

The impact of these standards is yet to be determined but they will be applied by the Consolidated Entity on the relevant application date.

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2009

4. FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are 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 are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

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

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for the year ended 30 June 2009

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) and Singapore dollar (SGD). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, CHF and SGD.

Over 75% (2008-60%) of the Consolidated Entity's revenues and over 60%(2008-40%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

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

Capital Management

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

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

SomnoMed Limited
Notes to the preliminary consolidated financial statements (continued)
For the year ended 30 June 2009

5. Events occurring after reporting date

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

6. Associates and Joint Venture entities

The company has a 50% interest in SMH Biomaterial AG. SomnoMed Limited transferred to SMH Biomaterial AG its 50% share of the intellectual property in the SMH B Flex material for a nominal amount incurring a loss on transfer of \$53,064 (2008-loss \$110,217).

7. Subsidiary Companies incorporated during the year

The company has a 100% interest in Somnomed Corporation Japan, which was incorporated during the year. No subsidiaries were acquired during the year.

8. Contingent liabilities

At 30th June 2009 no contingent liabilities existed.

9. Other significant information

N/A.

10. Foreign Accounting standards

N/A.

11. NTA Backing

	2009	2008
Net tangible asset backing per ordinary share	0.5 cents	0.7 cents

12. Loss Per Share

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

	2009	2008
Net loss used in calculating basic and diluted earnings per share	(1,818,673)	(2,731,119)
Diluted (loss) per share (cents per share)	(0.2)	(0.4)
Basic (loss) per share (cents per share)	(0.2)	(0.4)
Weighted average number of shares used in the calculation of diluted loss per share	767,652,767	655,173,734
Weighted average number of shares used in the calculation of basic loss per share	767,652,767	654,472,770
Shares on issue at year end	767,652,767	767,652,767
Number of options on issue at year end – each option is exercisable at between 1 cent and 48 cents per share and converts to one ordinary share	56,100,000	46,178,000

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

SomnoMed Limited
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13. Segment Operations

The Company operations during the year related to the commercialisation of a mandibular advancement splint primarily in Australia, the United States and Europe.

Primary Reporting – Business Segments

The economic entity's operations during the period related to the production and sale of a mandibular advancement splint, which is the only business segment.

Secondary Reporting – Geographical Segments

	Segment Revenues	Segment Result	Carrying Amount of Segment Assets	Acquisitions of Non-current Segment Assets
	2008	2008	2008	2008
Geographical location:	\$	\$	\$	\$
Asia Pacific	1,625,405	(2,101,809)	5,981,148	24,340
USA	2,305,319	(78,715)	961,393	19,704
Europe	101,838	(550,595)	61,864	43,578
	<u>4,032,562</u>	<u>(2,731,119)</u>	<u>7,004,405</u>	<u>87,622</u>

	2009	2009	2009	2009
Geographical location:	\$	\$	\$	\$
Asia Pacific	2,001,945	(2,058,021)	3,564,132	53,064
USA	5,620,472	906,498	2,194,259	40,266
Europe	601,153	(667,150)	279,613	5,951
	<u>8,223,570</u>	<u>(1,818,673)</u>	<u>6,038,004</u>	<u>99,281</u>

Audit

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

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

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



Sign here:
(Director)

Date: 27th August 2009

Print name: P Neustadt