

Compumedics Moves to Positive Territory

Compumedics Ltd reported record revenue and earnings results for the year ended June 30, 2004. Revenues for the year ended June 30, 2004 were \$34m, a 6% increase over the year ended June 30, 2003. The increase in revenues was achieved despite a 21% appreciation in the Australian dollar against the US dollar. Had this appreciation in the Australian currency against the US dollar not occurred, revenues for the year ended June 30, 2004 would have been \$39.4m.

Record earnings after tax were achieved during the year ended June 30, 2004 at \$2.4m. This compares with earnings after tax for the year ended June 30, 2003 at a loss of \$18.6m. Basic earnings per share for the year ended June 30, 2004 are 1.7 cents per share.

Earnings before interest, tax, depreciation and amortization (EBITDA) grew to \$2.9m for the year ended June 30, 2004, a 55% increase over the year ended June 30, 2003. Earnings per share based on EBITDA are 2.1 cents per share for the year ended June 30, 2004.

Net cash for the year ended June 30, 2004 increased by \$1.0m. This compares to a \$3.2m decline in cash for the year ended June 30, 2003.

The increase in cash was driven by the improved operating performance of the business as well as improvements in cash collections and inventory management. Inventories for the year ended June 30, 2004 were \$6.5m compared to \$8.4m for the year ended June 30, 2003. Debtors days at 110 for the year ended June 30, 2004 compared to 90 days at June 30, 2003 did not improve at balance date, however this decline in debtor days was primarily driven by an increase in June sales.

Compumedics' Executive Chairman David Burton said, "The achievement of record results by the company as it returned to profits and cash generation is a reflection of the hard work and focus by all the people at Compumedics over the last couple of years, and most importantly the patience and support of our shareholders. Whilst the appreciation of the Australian dollar against the US dollar during the year somewhat dampened the result, we had anticipated this. The company must continue on its growth trajectory to increase the value of our company. Our technology and market development is on target and we expect strong revenue growth with profits and cash generation to continue."

SynAmps² showcased in Germany

The world's most powerful EEG amplifier system – the SynAmps², was recently showcased to various universities in Germany.

The tour gave an insight into the technological advancements that have gone into producing this superior amplifier. Each site had the opportunity to experience firsthand, the power and flexibility of the SynAmps² technology and its possible applications in their research. With the ability to acquire up to 512 channels, the SynAmps² never compromises data quality for quantity of channels, preparation time or cost. Additionally, with the use of MagLink technology, sites were introduced to the SynAmps²'s ability to record EEG in the fMRI environment (see MagLink article on page 3).

The SynAmps² was showcased in the cities of Magdeburg, Bielefeld, Münster, Jena, Mainz and Hamburg. The sites visited were involved in the fields of Neurology and Psychology, with interests ranging from pure research to clinical applications.



Universitätsklinikum Jena – where renowned Professor Hans Berger (1873-1941) recorded the first human electroencephalogram in July 1924.

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CEO's message



How do you summarise the financial performance of the business in the last twelve months?

The result was a good step along the road to our ultimate goals for the company.

The achievement of record results by the company as it returned to profits and cash generation is a reflection of the hard work by all the people at Compumedics over the last couple of years, and the support and patience of our shareholders.

Whilst the appreciation of the Australian dollar against the US dollar during the year somewhat dampened the result, we had anticipated this. The company must continue on its growth trajectory to increase the value of our company. Our technology and market development is on target and we expect strong revenue growth with profits and cash generation to continue.

Are you satisfied with the revenue growth of the business?

As a stepping stone towards elite performance, it is acceptable. Clearly the revenue result was below what we have historically achieved, even excluding the strong Australian dollar. Having said that, the US business in US dollars did achieve revenue growth of 35% over the previous year so the infrastructure put in place there is now bearing fruit. Our challenge is to achieve consistent growth across the group.

What impact did the Australian dollar's appreciation against the US dollar have on the business in the financial year?

Had the exchange rate stayed at similar levels for the 12 month period to June 30, namely around 0.56c, revenues would have been \$39.4m, or \$5.4m higher than reported and profits would have been \$3.5m or approximately \$1.1m higher.

The fact the business absorbed such a large external movement and still improved its financial performance demonstrates the focus within the business on operational efficiency and cost control. However, there is always room for significant improvement and this is the focus for 2005.

What is the strategy for Compumedics over the next few years?

Compumedics' strategy remains as it has for the past 17 years, to continue to develop its core competency in sleep diagnostics so as to maintain its position as one of the leaders in this growing healthcare market. We will then continue to leverage this technology platform into new and growing opportunities such as brain research, neurodiagnostics, neuro medical supplies and cardiology.

Why do you believe the strategy is working?

I believe the strategy is working because the business is generating profits and cash and the business continues to grow. We are also leaders in both sleep diagnostics and brain function research tools.

Your costs have declined significantly in 03/04, will this cost-reduction trend continue?

Yes, but on the basis of waste elimination and productivity improvements. The cost base is now established for the business. We will selectively add to sales and marketing resources to ensure we achieve the growth objectives of the business.

In addition, as the business grows, the factory will continue to be a source of efficiency and cost gains as more volume is moved through the facility.

Why are Compumedics' Australian sales so flat or declining?

The Australian market is a small market and with a 70 to 80% share in sleep, a 60% share in clinical EEG and almost complete ownership of the Brain research market, the cost and energy of achieving further growth in these markets cannot be justified alongside the opportunities in the USA and Europe.

For example the US business in US dollars grew 35% in 2004 over 2003 and Europe grew 20%.

How is the European business going?

Whilst the European business grew 20% over the last year, the overall development of this business will take longer than anticipated. Our European business will continue to develop on a number of fronts: our relationship with Draeger continues to evolve; we are currently in the final stages of selecting a General Manager Sales and Marketing to be based in Europe and at the same time building independent distribution channels for brain research and neuro diagnostics. We are looking at both organic and acquisition based strategies for Europe.

What final comments do you have for the shareholders?

We have now restored profitability and cash generation and as a consequence, are more inclined to communicate ongoing expectations upon a firm foundation.

New Victorian Laws for Sleepy Drivers

New Victorian laws announced in June will see drivers who fall asleep at the wheel and cause a fatal accident, face up to 20 years in jail. Previously, Victorian drivers would only be charged with dangerous driving, culminating with a 2 year maximum sentence. Now, this offence is being recognised as culpable driving and comes with much higher penalties.

VicRoads estimates that approximately 25% of all fatal road accidents are linked to sleepy drivers. This is the third most common cause after alcohol and drugs.

Dr. John Reid, a neuroscientist and driver behaviour expert from Swinburne University's Brain Sciences Institute, has found that fatigue is more complex than many people realise and just having a power nap may not be helpful.

Dr. Reid has distinguished Excessive Daytime Sleepiness (EDS) as different from physical exhaustion and sleep deprivation. He defines EDS as being excessively tired during the day despite having an apparent normal night's sleep.

Whilst it may be okay for a footballer, who is suffering from physical exhaustion after a game, to drive, it is definitely not safe for someone who has been deprived of sleep. A power nap is unlikely to help the sleep-deprived.

EDS is a major social problem and what's more is that it is hard to diagnose as there are no other obvious physical symptoms. EDS has the potential to severely affect the quality of life. It may come in short spurts lasting a few minutes to an hour, and comes without warning, and may occur numerous times a day.

Possible causes of EDS include:

- **Inadequate Sleep** – partying too hard or working long hours
- **Broken Sleep** – Being interrupted by your environment. Eg. Baby crying, snoring
- **Shift Work** – Sleeping at different times to what your body is used to
- **Anxiety, stress or depression** may keep you up at night
- **Alcohol, caffeine, tranquillisers, sleeping pills and anti-histamines** may disrupt sleep patterns.
- **Medical Conditions** – hypothyroid, oesophageal reflux, nocturnal asthma and chronic painful conditions
- **Time Zone Changes** – Jet lag or night shift. Sleep is regulated by the body's internal clock that responds to light.
- **Sleep Disorders** – Sleep apnoea, restless legs syndrome, sleep walking, narcolepsy, and insomnia.

Source: The Herald-Sun, Page 28, 16 June 2004

Compumedics Neuroscan MagLink System – Recording EEG in the fMRI

Interest in the MagLink system has increased dramatically, with new installations doubling over the past 12 months. The widening market acceptance for the MagLink system may be linked to new technological developments that have allowed EEG and MRI to be integrated.

Combining EEG with fMRI provides several important advantages that neither alone can provide. For instance, EEG provides critical timing information about fMRI activation, so that the order of multiple activations may be identified. fMRI data can be used to identify areas of EEG activation for dipole seeding and refined localisation.

Combining EEG and fMRI provides a functional imaging modality that is unmatched in its spatial and temporal capabilities.

While there has been interest in combining these two technologies for quite some time, a complete turnkey solution was not available. Many labs have attempted to modify existing EEG systems for use in the MRI, only to experience the difficulties and dangers that need to be overcome.

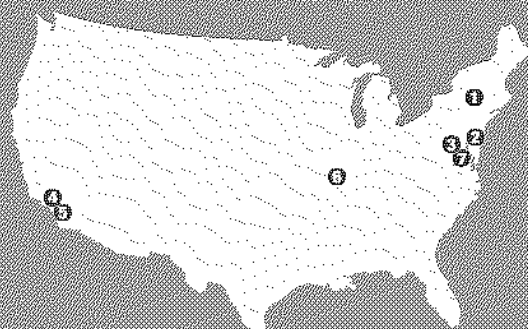
The MagLink Cap and Cabling system is a second-generation solution for recording EEG in the MRI that allows EEG to be recorded during the pulse sequence and at higher field strengths.

The passive design of the MagLink carbon fiber cabling allows full bandwidth EEG (DC to 3500 Hz) to be recorded. The MagLink Cap uses a monopolar montage that allows both EEG and ERPs to be obtained. Since no multiplexing occurs, high-density EEG can be obtained with the MagLink system. Advanced algorithms in the SCAN software make it possible to recover EEG and ERP data during the pulse sequence.

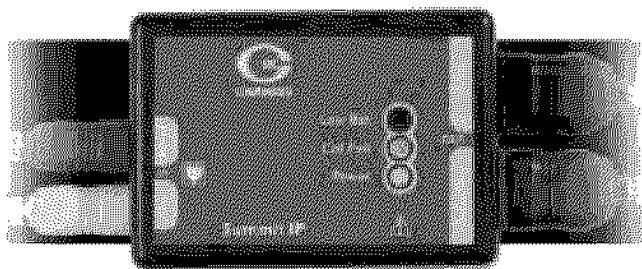
As the use of this tool develops, Neuroscan is pleased to offer cutting edge solutions in the completely turnkey, safe and reliable MagLink system. Neuroscan has always been in the forefront of research in the Neurosciences, and that tradition continues with the MagLink system.

THE MAGLINK SYSTEM IS USED WORLDWIDE:

- 1 **Albany Medical Center – Albany, NY**
Research Area: Combining EEG and fMRI to better assess and treat epilepsy.
- 2 **University of Pennsylvania – Philadelphia, PA**
Research Area: Combining EEG and fMRI to assess sleep and sleep deprivation.
- 3 **National Institutes of Health – Bethesda, MD**
Research Area: Basic research on methods and testing of EEG in the fMRI.
- 4 **California Institute of Technology – Pasadena, CA**
Research Area: Broad application for the neuroscience community.
- 5 **University of California, Irvine – Irvine, CA**
Research Area: Neurological diagnosis for schizophrenia and other cognitive conditions.
- 6 **Washington University of St. Louis – St. Louis, MO**
Research Area: Combined EEG and fMRI to better assess epilepsy and other neurological conditions.
- 7 **Kennedy Krieger Institute – Baltimore, MD**
Research Area: Assessment of neurological function using a multi-modal approach.



Summit IP™



The Summit IP respiratory effort sensor system is a small-battery powered device that uses true Inductive Plethysmography technology.

Importantly, this device produces a balanced SUM channel output that is useful in showing respiratory paradox, whilst always maintaining the polarity of respiratory effort signals. The SUM channel output is produced by the Summit IP's advanced microprocessor technology that continuously tracks each breath and then automatically balances the output.

In 1999, recommendations from the taskforce of the *American Academy of Sleep Medicine reflect the consensus that the balanced SUM channel output from a Respiratory Inductive Plethysmography (RIP) system is the preferred signal for research because it has been shown effective in tracking changes in respiratory effort.

Compumedics' expertise in developing and using RIP technology in its PSG systems for the last 15 years has been carefully applied to the development of the Summit IP.

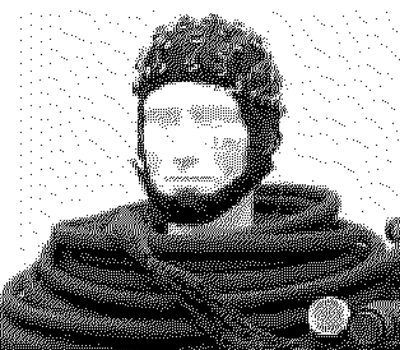
Summit IP

- * Preferred, true inductive plethysmography technology
- * Linear response to changes in effort
- * Balanced SUM channel output
- * Continuous, automatic channel balancing
- * Operates with any PSG amplifier system
- * 800 hours of operation from a small low-cost battery
- * Long lasting, reusable sensor bands
- * Cost effective and easy to use

This affordable, easy to use technology is available to any lab using any brand of sleep amplifier system, simply with the attachment of standard touch-proof connectors.

Summit IP is currently available for sale in Australia and the USA. For other regions, please contact Compumedics for the latest update on this product.

*Technical reference: Flemons WW, Buysse D, "Recommendations for Syndrome Definition and Measurement Techniques in Clinical Research: The Report of an American Academy of Sleep Medicine Task Force", Sleep, 1999;22(5):667-689.



MagLink — The Leap Forward to True Functional Imaging Modality

EEG provides a measure of the electrical activity of the brain. This technique has excellent resolution over time, allowing researchers to measure brain activation with millisecond timing. However, EEG has limitations determining exactly where that activation is coming from,

since the weak electrical signals are blurred by layers of tissue and scalp. Advances in high-density recordings and more accurate source models and localisation tools have improved the spatial resolution of EEG greatly over the past several years.

EEG and the event related potential obtained from EEG can now be recorded with great temporal accuracy and acceptable spatial resolution. However, using the leading edge MagLink technology, it is now also

possible to combine EEG with those measures that have the highest spatial resolution such as fMRI and in doing this, EEG moves one step closer to a true functional imaging modality (with accuracy in both time and space).

Recent advances in technology and the dedicated effort of the Compumedics Neuroscan research and development team have made simultaneous recording of EEG and fMRI possible. This combined technology allows integrated measurement of the brain's electrical activity and its blood flow. Looking at these measures combined provides a new tool to study brain function, a tool that has limitless applications in both basic science as well as clinical applications.

As this tool is more fully introduced into the neuroscience community, researchers and clinicians alike will find new uses and applications. As these new applications emerge, the need for recording EEG and fMRI will grow to the point where this tool becomes a standard methodology for both research and clinical applications.

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