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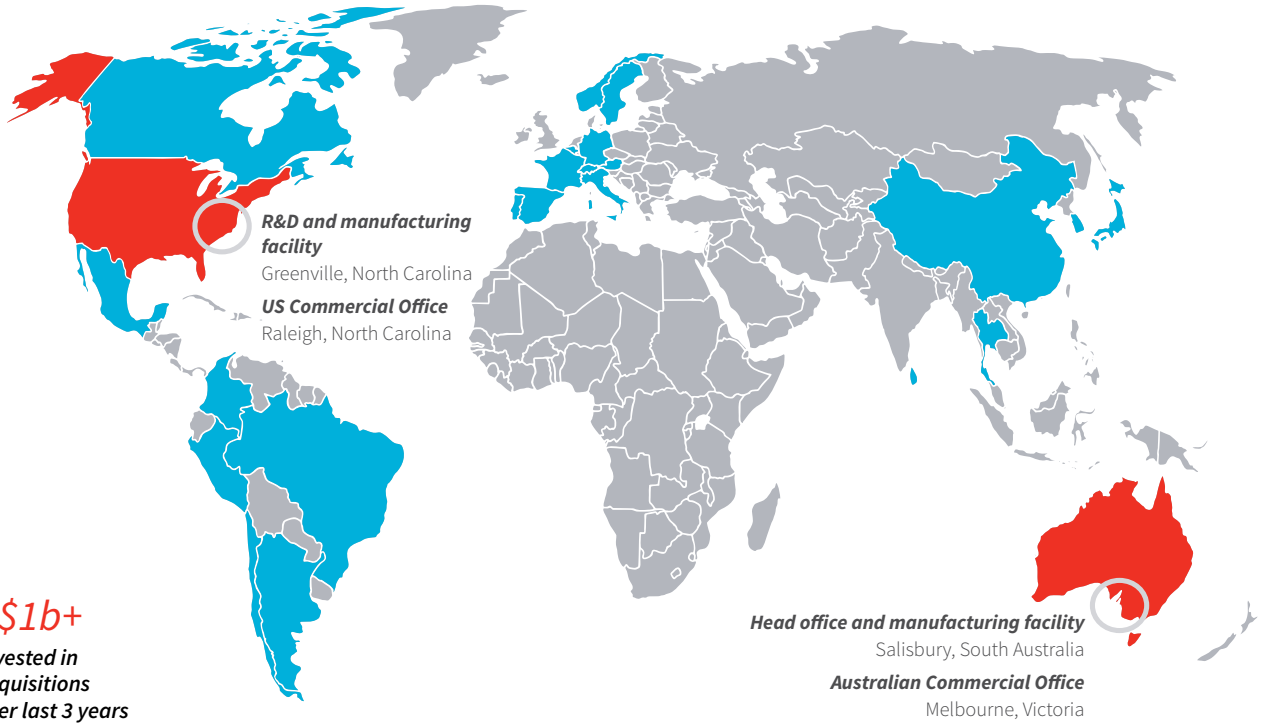
mayne pharma

Annual Report 2018

maynepharma.com

Business snapshot

● Direct Commercial presence ● Indirect presence through distribution partners for current and pipeline products



R&D and manufacturing facility
Greenville, North Carolina

US Commercial Office
Raleigh, North Carolina

Head office and manufacturing facility
Salisbury, South Australia

Australian Commercial Office
Melbourne, Victoria

A$1b+
invested in acquisitions over last 3 years

850+
staff including 250+ Scientists

A$100m+
invested in R&D over last 3 years

A$180m+
capital expenditure over last 3 years

70+
marketed products globally

30+
pipeline products

100+
contract service clients

1.2b+
doses sold in Australia and US in FY18

Mayne Pharma's focus

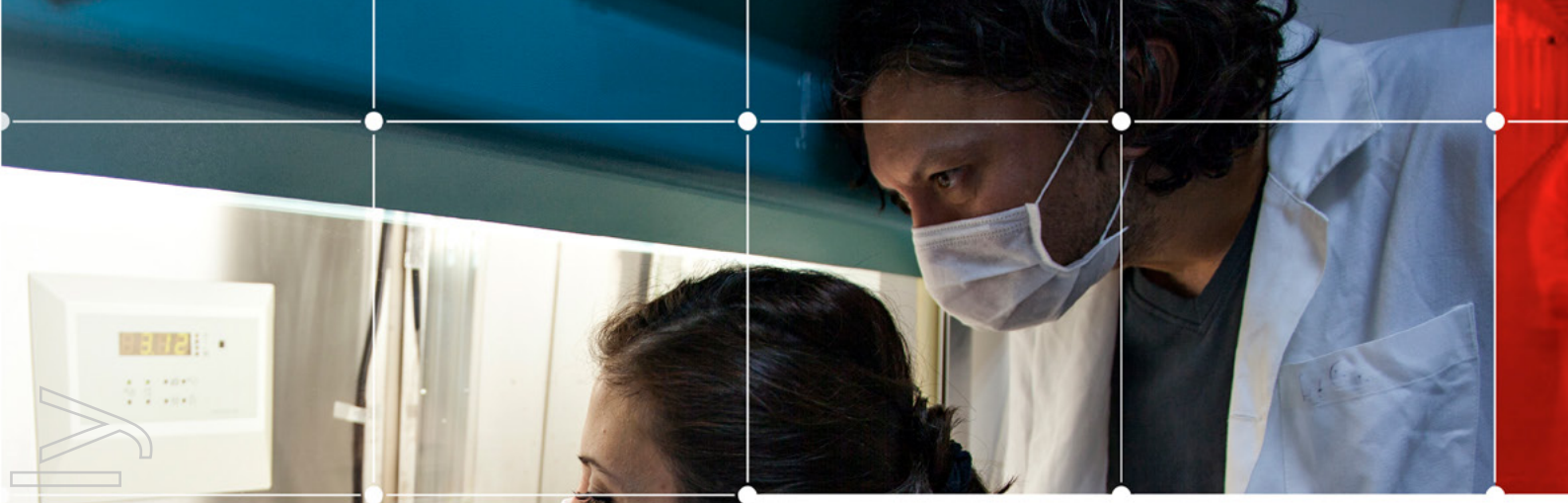
Quality contract services and manufacturing to industry clients

Hard to develop and manufacture products that bring therapeutic value to patients and payers

Underpinned by excellence in drug delivery technology



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About Mayne Pharma

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Keeping our promises to patients, for better medicines and a better tomorrow

Innovative & entrepreneurial
... in approach and mindset across all of our market segments and core business activities

Partnership at the core
... flexible and collaborative partner that is great to work with and solutions driven in both product and service offerings

A great place to work
... built on integrity and opportunities for development

Delivering sustainable value to patients and prescribers
... highly valued medicines delivered efficiently and effectively to our customers across a multi-channel platform

Medical dermatology leadership
... to provide innovative medical dermatology solutions that meet the needs of patients and physicians

We believe that everyone deserves medicines that are better, safe and more affordable. That's why our people are determined to create innovative products and services for our changing world.

Mayne Pharma is an ASX-listed specialty pharmaceutical company focused on the application of drug delivery expertise to commercialise branded and generic pharmaceuticals, providing patients with access to better and more affordable medicines. Mayne Pharma also provides contract development and manufacturing services to more than 100 clients worldwide.

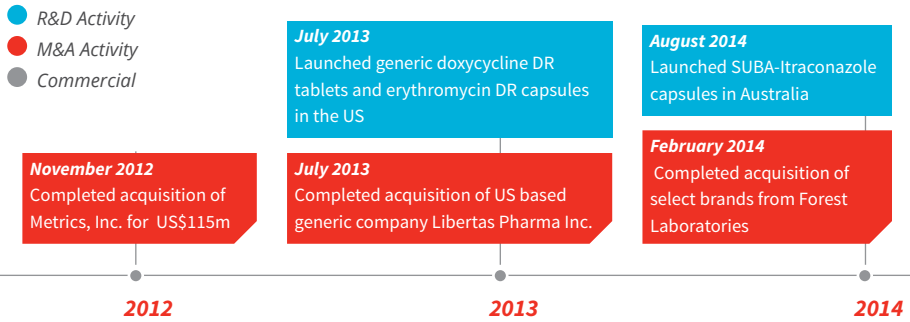
Business Overview

Mayne Pharma's roots can be traced back to FH Faulding and Co Limited, for many years, one of the largest and most prominent pharmaceutical companies headquartered in South Australia. Mayne Pharma has a 30-year track record of innovation and success in developing new oral drug delivery systems and these technologies have been successfully commercialised in numerous products that continue to be marketed around the world including Astrix®, Doryx®, Eryc®, Kapanol®, and Lozanoc®.

Mayne Pharma has two product development and manufacturing facilities based in Salisbury, Australia and Greenville, North Carolina, US with expertise in the formulation of complex oral and topical dose forms including potent compounds, modified-release products and inherently unstable compounds.

Key events shaping Mayne Pharma

Over the past five years, Mayne Pharma has grown its revenue from A$83m in FY13 to A$530m in FY18 and adjusted EBITDA from A$18m to A$165m. This growth has been driven by a number of strategic acquisitions, new product launches and an array of commercial initiatives to drive sales growth and improve the cost base. The key events that have shaped the development of Mayne Pharma and are expected to be key drivers of future growth include:



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	US Business Units			Rest of World
	Generic Products Division (GPD)	*Specialty Brands Division (SBD)*	*Metrics Contract Services (MCS)*	*Mayne Pharma International (MPI)*
OVERVIEW	• Develops, markets and distributes generic products in the US • Focused on developing and bringing to market complex generic products	• Develops, markets and distributes specialty branded products in the US • Focused on clinically differentiated products with therapeutic value in dermatology, infectious disease and rare diseases	• Provides contract pharmaceutical development, manufacturing and analytical services to third party customers globally • Focused on niche and scientifically challenging areas	• Develops, markets and distributes branded products globally (excl. US) • Focused on in-licensing and out-licensing specialty brands
KEY PRODUCTS & SERVICES	• Potent compounds (dofetilide, liothyronine) • Modified-release products (budesonide, doxycycline, erythromycin) • Hormonals (oral contraceptives) • 60 marketed products • 25+ pipeline products	• Sorilux® • Fabior® • Doryx® MPC • 5 pipeline products including SUBA®-Itraconazole and trifarotene	• Oral solid dose development through to commercial supply, including potent handling • First-in-human CTM, PI, PII, PIII • Method development & validation • Stability and ongoing release	• Monurol® • Urorec® • Astrix® • Doryx® • Kapanol® • Lozanoc® • Select OTC range
KEY DRIVERS OF SUCCESS	• Commercial execution • Multichannel strategy • Supply chain excellence	• Commercial execution • Product differentiation for patients/prescribers • Intellectual property expertise	• Scientific excellence • Potent handling capability • Concept to commercialisation pathway	• Commercial execution • Targeted in-licensing • Broaden global footprint through out-licensing

- *R&D Activity*
- *M&A Activity*
- *Commercial*

2015

May 2015
Completed US$50m acquisition of Doryx®

February 2015
Established Specialty Brands platform in the US with 60 sales reps following acquisition of Doryx®

2016

June 2016
Launched dofetilide capsules in the US, first generic approval to Pfizer's Tikosyn®

July 2016
A$26m settlement on patent litigation with Forest Laboratories

August 2016
Launched Doryx® MPC in the US, new formulation of doxycycline

March 2016
Acquired 100% of liothyronine ANDA from Perrigo Company plc

August 2016
Completed US$652m acquisition of US product portfolio from Teva and Allergan

August 2016
Completed US$50m acquisition of foam assets from GSK

November 2016
Began selling generic products to the US Government through the Federal Supply Schedule

2017

June 2017
Launched doxycycline IR tablet in the US, first generic to Almirall's Acticlate®

June 2017
Entered into global license agreement with Nestlé Skin Health for trifarotene in rare skin diseases

December 2017
Expanded Specialty Brands sales team to 114 sales reps to accelerate growth of the dermatology brands

2018

March 2018
Generic NuvaRing® accepted for filing by FDA

May 2018
SUBA®-Itraconazole NDA accepted for filing by FDA

July 2018
Completed acquisition of generic Efudex® for up to US$30m

January 2018
Brought in house the manufacture of amiodarone tablets and launched liothyronine tablets

March 2018
Completed A$25m expansion of solid oral dose facility in Salisbury, AU

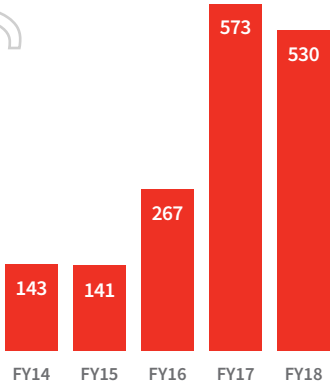
April 2018
New US$80m solid oral dose manufacturing facility opened in Greenville, NC, US

May 2018
Received first commercial manufacturing revenues from a full service Metrics Contract Services client

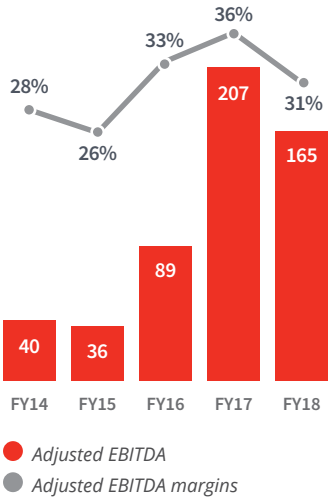
FY18 Business Highlights

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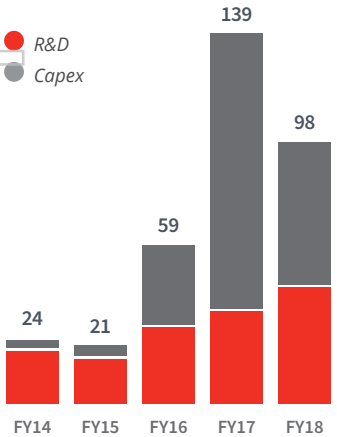
Revenue (A$m)



Adjusted EBITDA[1] (A$m)



Capex and Gross R&D spend (A$m)



1. Refer to results announcement for adjustments to EBITDA.

AUGUST 2017

- Launched Urorec® (silodosin) capsule (8mg) in Australia indicated for the relief of lower urinary tract symptoms associated with benign prostatic hyperplasia in adult men
- European Medicines Agency granted SUBA-Itraconazole Orphan Drug Designation for Basal Cell Carcinoma Nevus Syndrome (BCCNS) which provides certain benefits to a drug developer including a 10-year period of marketing exclusivity in Europe

NOVEMBER 2017

- Launched full range of generic Clozaril® (clozapine 25mg, 50mg, 100mg and 200mg) tablets in the US, indicated as an antipsychotic

DECEMBER 2017

- Completed expansion of Specialty Brands team to 114 sales representatives to drive growth of Fabior®, Sorilux® and Doryx® MPC
- Launched Monurol® (fosfomycin trometamol) granules (3g) in Australia indicated for the treatment of acute uncomplicated urinary tract infections in females over 12 years old
- HedgePath Pharmaceuticals, Inc. completed recruitment for Phase IIb clinical trial studying the effect of Mayne Pharma's patented SUBA-Itraconazole capsules in 38 BCCNS patients and reported interim results demonstrating that the majority of Target Lesions (N=477) decreased in size (54% of Target Lesions decreased by >30% and 27% completely disappeared)

JANUARY 2018

- Launched generic Cytomel® (liothyronine 5mcg, 25mcg and 50mcg) tablets in the US indicated to treat hypothyroidism after ending a distribution agreement
- Brought in house the manufacture of amiodarone 100mg and 400mg tablets
- Invested US$2.4m into HedgePath Pharmaceuticals Inc., a partly owned subsidiary of Mayne Pharma, to progress the development of SUBA-itraconazole as a potential treatment for cancer

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FEBRUARY 2018

- Launched voriconazole powder for injection (200mg) in Australia to treat fungal and yeast infections

MARCH 2018

- First generic to market launch of methylphenidate extended-release (ER) capsules (10mg) in the US, indicated for attention deficit hyperactivity disorder
- Acquired generic butalbital / acetaminophen capsule (50mg / 300mg) from Mikart, Inc. indicated to treat tension headaches (migraines)
- Launched generic Monodox® (doxycycline monohydrate 50mg, 75mg and 100mg) capsules in the US, indicated for the treatment of a number of infections, including adjunctive therapy in severe acne
- Launched generic Quartette® (levonorgestrel and ethinyl estradiol) tablets in the US, indicated for the prevention of pregnancy
- Received filing acceptance from the US FDA for a generic NuvaRing®, an intra vaginal hormonal contraceptive delivery device combining etonogestrel / ethinyl estradiol over a 3-week period

APRIL 2018

- Launched generic Cordarone® (amiodarone 200mg) tablets in the US used to treat life-threatening recurrent ventricular arrhythmia
- Officially opened the new US$80m solid oral dose manufacturing facility in Greenville, North Carolina, US which more than quadrupled Mayne Pharma's US capacity for solid oral dose pharmaceuticals and introduces new capacity to manufacture potent compounds and new capability to manufacture modified-release bead/pellet products
- Completed tech transfer in-house of disopyramide capsules to Greenville, first Teva acquired product transferred in-house

MAY 2018

- Completed A$25m investment in Salisbury to expand fluid bed processing capacity, expand high sheer granulation and tablet compression capacity and add new potent oral solid dosage handling capability
- FDA acceptance of New Drug Application (NDA) for SUBA-Itraconazole capsules to treat systemic fungal infections
- Completed tech transfer in-house of carbidopa / levodopa tablets to Salisbury from a Teva site which is expected to become Salisbury's largest volume product providing significant overhead recovery benefits
- Received filing acceptance from US FDA for generic Ranexa® (ranolazine) extended-release tablets, indicated for the treatment of chronic angina
- Received approval for generic Kapvay® (clonidine 0.1mg) extended-release tablets from US FDA, indicated for the treatment of attention deficit hyperactivity disorder as monotherapy or as adjunct to stimulant medications
- Metrics Contract Services received first commercial manufacturing revenues from a full service MCS client

Strategic priorities aligned with creating long term sustainable value

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	Strategic Priorities	*Examples*
US Generic Products expansion	• Create highly efficient, focused R&D organisation with access to an array of differentiated dosage forms • Addition of high value, high complexity products to portfolio via internal R&D, strategic alliances and other complementary business development activities	• US on market generic portfolio has grown from 2 products directly marketed in 2012 to 60+ products marketed today • Top 20 retail generic business • 3rd largest supplier of oral contraceptives
Specialty Brands expansion	• Category leadership in medical dermatology • Maximise value of existing brand portfolio through targeted additional development and clinical activities • R&D commitment to clinical and early stage programs – that have global application and address high unmet medical needs • Selectively invest in relevant therapeutic areas – eg. infectious disease	• Currently market three patent protected dermatology products in the US up from just one product in 2015 and have 4+ pipeline dermatology products • In the last two years pipeline has expanded to include trifarotene and three foam products • Filed SUBA-itraconazole capsules to treat systemic fungal infections with the FDA
Leverage and diversify drug delivery platforms	• Further investment in drug delivery technologies, capabilities and expertise to enhance MCS offering • Extension into relevant, complementary drug delivery platforms • Selectively pursue co-development opportunities with high quality MCS client base	• Expanded drug delivery capabilities through strategic alliance partners: – Formulytica (Foam) – Corium (transdermal) – Douglas (soft-gel) – Mithra (drug device)
Commercial execution	• Multichannel product distribution strategy to diversify customer base (specialty pharmacy, government, telesales) • Expanding prescriber and patient reach • Multifaceted marketing campaigns driving prescription and sales growth • Disciplined approach to optimising value and profitability per product	• In FY18, the prescriber bases for Fabior and Sorilux have grown ~50% • Developed government sales channel capability • Successful market share capture from new product launches: – dofetilide cap 44% market share by week 10[1] – doxycycline IR tab 31% market share by week 8[1]
Operational excellence	• Capacity expansions across supply network to improve product margins, quality and customer service • Optimise manufacturing network to drive cost efficiencies and flexibility • Develop organisational competency in Lean manufacturing systems and supply chain excellence	• Added commercial scale manufacturing of potent compounds and tripled fluid bed processing capability worldwide through capital expansions in Salisbury and Greenville • The new Greenville solid dose facility quadruples the Company's US manufacturing capacity

1. IQVIA, US weekly prescription volume.



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Chairman's Letter

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Roger Corbett AO, Chairman

FY18 was a transformative year following completion of the new solid oral dose facility in Greenville, North Carolina as well as completion of the manufacturing expansion in Salisbury, South Australia

Dear Fellow Shareholders,

On behalf of the Mayne Pharma Board and Management, I am pleased to present the 2018 annual report.

The Board and I would like to express our appreciation for your continued commitment and investment in Mayne Pharma. FY18 has been an extraordinary year as the US generic industry faced a tough deflationary period driven by customer consolidation and the acceleration of approvals through the US FDA. These changing market dynamics have impacted the whole generic industry leading to many of our US peers reporting weaker results, restructuring their operations, divesting assets and or announcing strategic reviews.

Financial performance & position

Mayne Pharma has also been impacted by these market dynamics, but I believe our business model has allowed us to weather these market conditions better than most of our peers. With a strong balance sheet, a diverse operating model that also includes specialty brands and contract services, and an experienced team of people to lead and execute on our strategies we have reported a significantly stronger second half. The second half benefited from new product launches, cost savings from in-house manufacture of select products, portfolio optimisation, growing share of key marketed products, a stronger contract services committed business pipeline and a stabilising generic market.

In terms of the full year, the Company reported FY18 revenue of A$530m, adjusted EBITDA of A$165m[1] and reported a net loss after tax of A$134m. These full year results were impacted by a number of one-off items including non-cash intangible asset impairment, extraordinary stock obsolescence, abnormal Doryx returns, a restructuring charge to reduce the cost base and a charge to income tax expense resulting from the US corporate federal tax rate change. These one-off items largely impacted the results in the first half with minimal adjustments to reported earnings in the second half.

The Company ended the year with cash of A$87m and outstanding borrowings of A$374m. The Company has significant headroom under its bank covenants and intends to maintain a conservative balance sheet to retain the flexibility to pursue further growth initiatives including value accretive M&A. Pleasingly, operating cash flow was an inflow of A$122m and the second half also generated free cash flow after investing activities.

1. Underlying result excludes certain specified expenses as outlined in the FY18 Results Presentation dated 24 August 2018.

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Investing for growth

FY18 was a transformative year as the new solid oral dose facility in Greenville, North Carolina and the manufacturing expansion in Salisbury, South Australia were both completed. The Company has invested more than A$150m over the last three years to transform its manufacturing facilities to bring new capacity and capability on line and support the mid to long-term growth we are forecasting across our product portfolio, as well as offering commercial contract manufacturing to our contract service clients.

These expansions have begun to deliver benefits to the Group with improved margins for the products transferred in-house and the continued strong growth of Metrics Contract Services which is now able to offer clients a comprehensive 'concept to commercialisation' solution under one FDA site registration. Metrics Contract Services has delivered three consecutive years of double-digit revenue growth in USD terms and recently received revenues from its first long-term commercial manufacturing contract.

We also made significant investments over the year to advance our product pipeline. The Company invested A$44m in research and development, focusing on first-to-market generics, hard to manufacture products, complex generic products and advancing its pipeline of specialty brands. Pleasingly, the Company filed eight products with the FDA including the NDA for SUBA-Itraconazole anti-fungal capsule and the ANDA for a generic NuvaRing, which is the largest contraceptive product in the US. The Company launched six generic products in the US and two specialty brands in Australia.

Board renewal

It is crucial we maintain the most effective blend of experience and contemporary vision on our Board. As part of the Board renewal process, I am delighted to welcome Frank Condella and Pat Blake to the Board as Non-Executive Directors. Frank brings more than 30 years of global pharmaceutical industry experience from his time at Juniper Pharmaceuticals, IVAX (now part of Teva), Faulding Pharmaceuticals and Roche. Pat brings more than 30 years of global healthcare industry experience including more than 20 years at McKesson Corporation, one of the largest healthcare services and information technology companies globally. Both Frank and Pat are US residents and have distinguished careers in growing profitable, complex and diverse businesses across multiple markets and channels.

Outlook

The US pharmaceutical market continues to be highly dynamic with potential government policy changes and ongoing channel shifts through vertical integration of the supply chain across wholesalers, retailers, pharmaceutical benefit managers and insurers. In addition, a number of major participants have announced plans to complete strategic reviews, restructure their operations or divest certain US assets.

The Company views this dynamic environment favourably and remains focused on executing on its key strategic initiatives which include bringing new products to market, optimising our supply chain, exploiting new distribution channels, growing share of marketed products, and further business development activity.

The outlook is positive across the Group with a more stabilised retail generic pricing environment, an established specialty sales platform in US, anticipated new product launches, the acquisition of generic Efudex® in July 2018, portfolio optimisation and the pipeline of committed contract service business expected to be key drivers of near and long-term growth.

On behalf of the Board, I would like to thank the Mayne Pharma team for their hard work and commitment to deliver on our strategic goals. We will continue to maintain a conservative balance sheet and drive organic growth and seek out value enhancing business development opportunities, while improving profitability and cashflow through an efficient operating model.



Roger Corbett, AO
Chairman

Chief Executive Officer's Review

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Scott Richards, CEO

Mayne Pharma has a clear strategy for growth, which centres on optimising our current on-market product portfolio, developing our people, deepening our investment in product development, expanding our manufacturing capabilities and looking for new business development opportunities.

Dear Fellow Shareholders,

Mayne Pharma has a clear strategy for growth, which centres on optimising our current on-market product portfolio, developing our people, deepening our investment in product development, expanding our manufacturing capabilities and looking for new business development opportunities. We will continue to focus on building our business in the United States, which is the world's largest pharmaceutical market.

Mayne Pharma has developed a meaningful presence in the US across its three complementary business segments – contract services, generic products and specialty brands and is now a top 20 retail generic business, one of the leading medical dermatology companies and a top three supplier of oral contraceptives.

Our key achievements for FY18 include:

- Significantly improved trading in the second half of FY18 driven by the rebound of generic products
- Positive operating cash flow of A$122m with 2HFY18 operating cash flow up 53% on 1HFY18
- Free cash flow of A$33m in 2HFY18
- Expanded Specialty Brands field sales team to 114 sales representatives which has contributed to the growth of Fabior and Sorilux in the second half
- Launched six generic products in the US – generic Cytomel (liothyronine), generic Monodox (doxycycline monohydrate), generic Cordarone (amiodarone 200mg), generic Ritalin (methylphenidate 10mg), generic Clozaril (clozapine) and generic Quartette (an oral contraceptive)
- Launched two specialty brands in Australia – Monurol (Fosfomycin) and Urorec (silodosin)
- Filed eight products with the FDA including generic NuvaRing and a New Drug Application for SUBA-Itraconazole anti-fungal capsule
- Metrics Contract Services delivered three consecutive years of double-digit revenue growth in USD terms
- Received first commercial contract manufacturing revenues from a Metrics Contract Services client
- Completed two strategic manufacturing investments in Salisbury, South Australia and Greenville, North Carolina
- Completed tech transfer of amiodarone tablets and disopyramide capsules to Greenville and carbidopa-levodopa tablets to Salisbury

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Operating performance

In terms of the operating performance at a segment level, the Generic Products Division sales were $386m, down 8% on FY17 and gross profit was $177m. Dofetilide, liothyronine, doxycycline, budesonide and carbidopa/levodopa were the key drivers of growth, offset by pricing pressures largely focused in the oral contraceptive portfolio. In US dollar terms, sales were US$299m down 5% on pcp with the 2HFY18 sales and gross profit up 12% and 78% respectively on the 1HFY18. The generic portfolio performed strongly in the second half driven by six new product launches, normalised levels of stock obsolescence, improving business mix and cost savings from the transfer of manufacturing of select products into Greenville and Salisbury from third party manufacturers.

Specialty Brands Division reported sales of $45m and gross profit was $38m. In US dollar terms, sales were US$35m with 2HFY18 sales up 121% on 1HFY18. The 1HFY18 results were impacted by US$10m of abnormal Doryx returns which did not recur in the second half. The expansion of the sales team to 114 specialty sales representatives in the first half has helped drive growth in the underlying demand of these products, as measured by dispensed prescriptions. Prescriptions for Fabior were up 30% and Sorilux up 75% in the 2HFY18 versus the 1HFY18 and the total number of prescribers writing these products has been growing consistently since November 2017.

Metrics Contract Services delivered another strong result, with revenue up 9% on pcp to A$63m and gross profit up 5% to A$34m. In US dollar terms, sales were up 12% to US$49m with MCS now delivering three years of double-digit annual revenue growth, well ahead of industry growth rates. The strong performance reflects MCS's strong reputation in the marketplace and the strategic investments made in Greenville over the last three years in new manufacturing capacity and capability which has enabled MCS to attract new business as well as create a pipeline of potential commercial contract manufacturing business.

Mayne Pharma International grew sales 7% to A$37m and gross profit increased 18% to A$8m. Australian sales benefited from increased sales of aspirin, injectables, itraconazole and oxycodone. New product launches of Monurol (fosfomycin



trometamol) and Urorec (silodosin) also contributed to the result. Rest of world sales grew 11% driven by Kapanol (morphine sulfate) in Canada and SUBA-itraconazole. The stronger gross margin reflects improving business mix and renegotiation of supply agreements.

Pipeline

The Company continues to invest in its pipeline of generic and branded products. The US pipeline contains over 30 products in various stages of development targeting markets with sales greater than US$5b[1]. During the year, the Company filed eight products with the FDA including its NDA for SUBA-itraconazole capsule and its ANDA for generic NuvaRing, received FDA approval for five generic products and launched six generic products in the US. In Australia, the Company launched two specialty brands products.

The Company continues to progress the commercialisation of its patented formulation of itraconazole for the treatment of certain fungal conditions and as a potential treatment for certain cancers. SUBA-Itraconazole is a proprietary, patented formulation that enhances the solubility and absorption of conventional itraconazole formulations.

1. IQVIA MAT Sales Jun 2018

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Over the next year, the Company expects to launch SUBA-itraconazole to treat certain fungal infections in another six countries, including the US assuming the product is approved following the acceptance of the NDA in April 2018. If approved, this product will be commercialised through the Specialty Brands business unit calling on a range of primarily hospital-based specialists that treat patients with, or at risk of certain fungal infections. The Company expects to have the new sales team in place during CY2019.

The SUBA-Itraconazole cancer program is being progressed by HedgePath Pharmaceuticals, Inc. (HPPI), a partly owned subsidiary (53.5% ownership) of Mayne Pharma. HPPI's primary goal is to bring to market SUBA-Itraconazole as a treatment for Basal Cell Carcinoma in patients with Basal Cell Carcinoma Nevus Syndrome (BCCNS, also known as Gorlin Syndrome).

The future

Mayne Pharma's competitive strength lies in its integrated operations from product development, through to manufacturing and marketing of our products and services around the world. Having both brand and generic product platforms, together with contract services, diversifies and de-risks our business model, enabling the Company to fully leverage growth opportunities and changing market dynamics. Future branded products can be marketed by the Specialty Brands Division and as these products lose exclusivity, the Company can participate in the related generic market. Metrics Contract Services shares our extensive manufacturing and testing facilities and enhances our return on investment in the new Greenville facility with manufacture of client products. We believe this diversified model is a significant competitive advantage over other similar sized peers.

I am looking forward to the coming year, launching new products and executing on our key strategic initiatives. I would like to take this opportunity to thank the Board, the Mayne Pharma Leadership Team, and all our employees for their hard work, commitment and passion. We will continue to shape our business to better align with the needs of our customers, prescribers and patients. I am confident we have a stronger business following the challenges we faced in 2017 and importantly we have the right team of people to lead and execute on the various growth opportunities we have around the world.



Scott Richards
Chief Executive Officer



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Building our tomorrow – facilities

Over the last three years, Mayne Pharma has invested more than A$150m in capital expenditure to expand its two manufacturing sites in Greenville, NC and Salisbury, SA to add capacity and new capabilities. These strategic investments have already begun to deliver benefits to the Group with improved product margins for the products transferred in-house and the continued strong growth of Metrics Contract Services, which is now able to offer clients a comprehensive 'concept to commercialisation' solution under one FDA site registration.



New solid oral dose manufacturing facility together with the new employee / visitor centre containing conference rooms, training space, cafeteria and fitness centre in Greenville, North Carolina

New solid oral dose manufacturing facility, Greenville, North Carolina

In April 2018, after almost three years of construction Mayne Pharma officially announced the opening of its new 11,600 square metre (125,000 square feet) solid oral dose manufacturing facility in Greenville, North Carolina. The US$80m investment in a new manufacturing plant more than doubles the operational footprint to 22,900 square metre (225,000 square feet) and creates new capacity and capability to accelerate growth.

The new facility was custom-designed and built from the ground up to meet or exceed the evolving standards of major drug regulatory authorities worldwide. Importantly, the new facility adds multi-particulate layering, bead coating fluid bed technology, organic solvent coating capacities and commercial scale handling of potent compounds, increasing dose capacity from 250m to well over 1b units / year.

Specifically designed for containment, the new facility can readily manage the commercial scale manufacturing of potent compounds — a key growth area for pharma companies today as they develop increasingly complex drugs for the treatment of cancer and chronic diseases. Each of the 13 production suites in the new facility was engineered to meet today's stringent manufacturing demands with a best-in-class approach to mitigating cross contamination — while also offering flexible space and delivering a broad range of capabilities and services.

The facility features a Glatt GPCG Pro 120 fluid bed system with an integrated Glatt VG 400 high-shear wet granulator and in-line milling. Capable of performing the full range of fluid bed processes, the Glatt GPCG Pro 120 offers high-shear granulating, top-spray granulating, drying and Wurster coating. The machine is rated for organic solvent spraying. This commercial unit has smaller pilot-scale counterparts, a Glatt GPCG 10 and a Glatt GPCG 30 on site in Greenville.

The new facility enables Metrics Contract Services to offer development clients a comprehensive 'concept to commercialisation' solution in one contiguous location under one site registration — delivering larger scale and increased capabilities for seamless scale-up, and reducing the technical and regulatory complexity of site transfers.

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Expansion of manufacturing facility, Salisbury, South Australia

In May 2018, Mayne Pharma completed the A$25m strategic investments at the Company's manufacturing facility in Salisbury, South Australia, to expand fluid bed processing, tablet compression and high shear granulation capacity and add new potent handling and tablet film coating capability to support the pipeline of products under development and the transfer in-house of three products from the acquired Teva portfolio.

As part of the Salisbury expansion, the Company installed a large scale Glatt GPCG Pro 300 fluid bed spray coater, which was partly funded by a A$4m grant from the Federal Government as part of the Next Generation Manufacturing Investment Programme. Mayne Pharma has more than 30 years of manufacturing experience employing multi-particulate (bead/pellet in a capsule or tablet) drug delivery technologies and these have been successfully commercialised in key marketed products such as Doryx, Kapanol, Astrix and Eryc. In all these products, fluid bed processing technology is used to apply various polymers to drug particles to modify the rate of release of the drug when ingested.

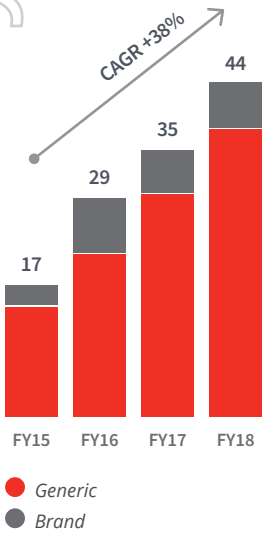


Top image: Roof space above new manufacturing extension in Salisbury
Bottom image: New SMA production suite for high volume granulation and drying product process in Salisbury

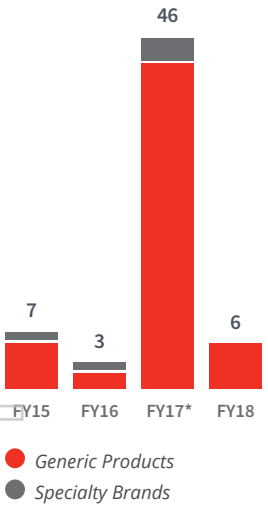
Building our tomorrow – pipeline

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Gross R&D spend (A$m)



Mayne Pharma new product launches (number)



*Includes 37 Teva acquired products.

Mayne Pharma continues to invest in the development of new generic and branded products focusing on higher value and niche product opportunities, first-to-market generics, hard-to-manufacture products and complex products.

Mayne Pharma's development pipeline includes over 30 products targeting US markets with sales greater than US$5b[1]. During FY18, the Company filed eight products with the FDA including its NDA for SUBA-itraconazole capsule, received FDA approval for five generic products and launched six generic products in the US. In Australia, the Company launched two specialty brands products.

The Company has seven generic products pending approval with no generic equivalents today targeting markets with sales of more than US$2b[1]. The most significant of these is the Company's filing of generic NuvaRing, an intra vaginal hormonal contraceptive delivery device. Merck's NuvaRing had total US sales of US$890m[1].

Over the last two years, Mayne Pharma has extended its drug delivery capabilities through a number of strategic alliances with best-in-class pharmaceutical developers and manufacturers. Mayne Pharma has current partnership arrangements with:

- Corium for transdermal patches;
- Mithra for a women's health hormonal device;
- Formulytica for foam technology; and
- Douglas Pharmaceuticals for soft gel products requiring specialised high containment manufacturing.

Mayne Pharma's investment in R&D has increased 400% over the last five years, from A$11m in FY13 to A$44m in FY18 with the majority of this investment directed towards generic products. The Company has begun to see meaningful returns from this R&D investment following the first-to-market launches of dofetilide capsules (generic Tikosyn) and doxycycline IR tablets (generic Acticlate). Together dofetilide capsules and doxycycline IR tablets have delivered cumulative gross profit of more than US$90m and returns of more than 1500% on the original development and related litigation costs. At the same time, these first-to-market generic launches have delivered immediate savings to patients and payers as these products are typically priced at a >50% discount to the brand list price generating significant savings to the US healthcare system.

1. IQVIA MAT Sales Jun 2018

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In terms of specialty brands research and development, the current areas of therapeutic focus are dermatology, infectious diseases and rare diseases. These therapeutic areas were selected based on the current portfolio, medical need and fit with our specialty pharma commercial capabilities. In addition, our core technologies are particularly suitable for these clinical areas. Our branded research and development efforts today are focused on bringing a clear clinical differentiation proposition to patients and payers through improving an active substance delivery format or repurposing an existing drug.

SUBA-Itraconazole

The Company continues to progress the commercialisation of its patented formulation of itraconazole for the treatment of certain fungal conditions and as a potential treatment for certain cancers. SUBA-Itraconazole is a patented formulation, which has improved absorption and significantly reduced variability compared to conventional itraconazole capsules. These benefits provide enhancements to patients and prescribers with reduced intra- and inter-patient variability, enabling a more predictable clinical response and a reduction in the amount of active drug administered to deliver the required therapeutic blood levels.

In Australia, SUBA-Itraconazole (Lozanoc) continues to perform well capturing 34% volume share of the itraconazole market[2]. Since launch in 2014, the overall itraconazole market has grown 18% annually benefiting from increasing diagnosis and treatment of fungal conditions as well as growing its share of the anti-fungal market[2]. Over the coming year, the Company expects to launch SUBA-itraconazole in another six countries, including the US assuming the product is approved following the acceptance of the NDA in April 2018. If approved, this product will be commercialised through the Specialty Brands business unit calling on a range of primarily hospital-based specialists that treat patients with, or at risk of certain fungal infections. The Company expects to have the new sales team in place during CY2019.

Whilst itraconazole is used extensively to treat fungal infections globally, the product appears to have notable anti-cancer effects. In clinical studies, itraconazole administration has been associated with improved disease control in patients with advanced lung cancer, skin cancer and prostate cancer. HedgePath Pharmaceuticals, Inc. (HPPI), a clinical stage biopharmaceutical company is seeking to repurpose SUBA-Itraconazole as a potential treatment for certain cancers and is investigating the use of the product as an inhibitor of the Hedgehog pathway.

2. IQVIA MAT units (tablet/capsules), Dec 2017

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The Hedgehog signalling pathway is a major regulator of cellular processes in vertebrates, including cell differentiation, tissue polarity and cell proliferation. Based on published research, HPPI believes that inhibiting the Hedgehog pathway could delay or possibly inhibit the development of certain cancers in humans.

HPPI's primary goal is to bring to market SUBA-Itraconazole as a treatment for Basal Cell Carcinoma in patients with Basal Cell Carcinoma Nevus Syndrome (BCCNS, also known as Gorlin Syndrome). Gorlin Syndrome is a serious condition for which surgery is the standard of care. Repeated surgeries often result in disfigurement and morbidity.

Trifarotene

In 2017, the Company entered into a new global licensing agreement with Nestlé Skin Health (parent entity of leading global dermatology and skin health franchise, Galderma) to develop and commercialise trifarotene in rare disease indications. Trifarotene is a new retinoid in a topical cream formulation. It has a high selectivity for the type of retinoic acid receptors (RAR) found specifically on the skin. Its retinoid functionality and potent keratolytic properties make it a potentially viable treatment for a number of rare diseases.

In 2014, the US FDA granted Orphan Drug Designation for trifarotene in the treatment of the skin disease congenital ichthyosis, which is an umbrella term for a group of rare, inherited forms of ichthyoses, a group of skin scaling disorders. There are no treatments approved by the FDA in the United States for moderate and severe subtypes of this disease. Lamellar ichthyosis is one of the disorders that belong to the congenital ichthyosis category. The disease manifests during the first weeks of life and lasts throughout a patient's lifetime and can lead to disability, partial deafness, severe discomfort and psycho-social impacts. Galderma completed a phase I study in 2016 using trifarotene in treating patients with lamellar ichthyosis which demonstrated the cream formulation to be safe and well-tolerated.

The collaboration with Galderma highlights Mayne Pharma as a trusted partner in dermatology as well as its emerging clinical and development capabilities in the management of rare diseases. The Company expects to commence a Phase II dose finding study in FY19.



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Global Leadership Team

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1. Scott Richards

Chief Executive Officer and Managing Director

Scott joined Mayne Pharma in February 2012. He has more than 27 years' international experience in the pharmaceutical industry and has worked in Europe, the US and Asia. Prior to joining Mayne Pharma, Scott spent ten years in Europe in a variety of leadership roles including President, Europe, Middle East and Africa and President, Global Commercial Operations for Mayne Pharma Limited (acquired by Hospira in 2007). He also served on the Group Management Board of Actavis for four years where he was responsible for the firm's global injectable/hospital business operations. Prior to working in Europe, Scott spent 14 years with FH Faulding and Co (acquired by Mayne Nickless in 2001) in a variety of roles including leading Faulding Pharmaceuticals Asia Pacific operations together with spending five years with Faulding in the United States leading business development and portfolio management operations.

2. Nick Freeman

Group Chief Financial Officer and Company Secretary

Nick was appointed as Group Chief Financial Officer and Company Secretary in May 2017. Nick is a Chartered Accountant and has more than 25 years' experience in the accounting and finance profession. He was formerly the CFO Australia at ANZ Bank and, prior to that, CFO New Zealand at ANZ Bank. He also held the position of Group Treasurer at Qantas Airways and was CFO at General Mills and Millers Retail. Nick has extensive experience in the areas of mergers and acquisitions, integration management, tax, financial planning and analysis and reporting, risk management, treasury and investor relations.

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3. Stefan Cross

President, International Operations

Stefan joined Mayne Pharma in November 2012 and brings more than 25 years' of pharmaceutical industry experience to his role. In 2013, Stefan became President of Mayne Pharma USA, relocating to Raleigh, North Carolina to lead the US business operations. In January 2017, Stefan returned to Australia and is now responsible for all non-US operations and commercial activities. Prior to joining Mayne Pharma, Stefan was Head of Marketing (Asia Pacific) for Hospira Inc., (now part of Pfizer) where he was responsible for expansion of the new product portfolio and on-market product growth across all markets in the region. Prior to joining Hospira, Stefan worked for six years with Mayne Pharma Limited in Europe and Australia and eight years with F H Faulding & Co across strategy, business development/M&A, sales and marketing, HR and finance/IT.

4. John Ross

President, Mayne Pharma USA

John joined Mayne Pharma in December 2013 as Executive Vice President of Metrics Contract Services. In January 2017, John became President of Mayne Pharma USA with responsibility for all US operations including manufacturing, quality, supply chain and business integration. He has more than 20 years' of experience in the pharmaceutical industry across finance, sales, operations and supply chain. Prior to joining Mayne Pharma, John was a Principal at Tunnell Consulting, a leading US biotech and pharmaceutical consulting organisation. He has also held a number of leadership roles including Chief Operating Officer of Contract Pharmaceuticals Limited, a provider of outsourced third-party contract development, manufacturing and testing of pharmaceuticals.

5. Ilana Stancovski

Chief Scientific Officer

Ilana joined Mayne Pharma in September 2014 and has over 20 years' of international experience in the pharmaceutical industry and academia. She has been instrumental in driving Mayne Pharma's pipeline selection, the global development of branded and generic products and the regulatory approval of NDAs, ANDAs and 505(b)2 dossiers. Prior to joining Mayne Pharma, Ilana was Vice President of Research & Development for Actavis Group's global Hospital Division where she made a significant contribution to advancing that company's injectable pipeline. Prior to Actavis, Ilana was the Vice President Scientific Affairs at Intas Pharmaceuticals Limited and also held senior management roles at other multinational pharmaceutical and biotech companies. She holds a Ph.D. in Life Sciences from the Weizmann Institute, Israel and worked as a post-doctoral scholar at Caltech and MIT in the United States.

6. Kate Rintoul

Executive Vice President and General Counsel

Kate joined Mayne Pharma in March 2013 and has over 20 years' of varied legal experience including in corporate, commercial and intellectual property (IP) law and in litigation, spanning multiple jurisdictions. She is responsible for worldwide legal operations, IP, governance, risk and compliance. Prior to joining Mayne Pharma, Kate spent much of her career in private practice at Minter Ellison Lawyers, one of the largest Australian-based international law firms, where she worked closely with Mayne Pharma on various agreements and transactions. She has also worked for Shell International in The Hague as IP Counsel.

7. Peter Paltoglou

Chief Development Officer, Head of M&A

Peter joined Mayne Pharma in August 2015 and has over 15 years' of experience in executing public and private mergers and acquisitions and providing strategic advice across a range of contexts and market sectors. Peter is responsible for group strategy, M&A, strategic alliances and wider corporate development activities including global business development. He was previously Managing Director of Investment Banking at Credit Suisse Emerging Companies in Australia. Prior to Credit Suisse, Peter was a Director of Hindal Group, a boutique M&A advisory business.

8. Andrew Herdman

Vice President, Group Human Resources

Dr. Herdman has more than 25 years of HR industry experience across all human resource functions. He has held numerous HR consulting roles and was VP of Human Resources and Strategic Partnerships at Crown American Real Estate Investment Trust. Prior to joining Mayne Pharma in August 2014, Dr. Herdman was Associate Professor, Department of Management at East Carolina University. He has published original research in numerous leading research journals on the impact of progressive human resource practices on firm performance outcomes. He holds a Ph.D. in Business Administration/ Human Resources from Virginia Polytechnic and State University, a Master's degree in Human Resources from Saint Francis University and a Bachelor of Science degree in Industrial Relations from the Pennsylvania State University.

Board of Directors

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Left to right: Mr William (Phil) Hodges, Prof Bruce Robinson, Hon. Ron Best, Ms Nancy Dolan, Mr Ian Scholes, Mr Roger Corbett (Chairman), Mr Bruce Mathieson, Mr Scott Richards (CEO), Mr Frank Condella, Mr Patrick Blake.

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DIRECTORS' REPORT

The Directors of Mayne Pharma Group Limited ('the Company') present their report together with the financial report of the Company and its controlled entities (collectively the 'Group' or 'Consolidated Entity' or 'Mayne Pharma') for the year ended 30 June 2018 and the Auditor's Report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 37 to 43, which forms part of this Directors' Report.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report are:

Mr Roger Corbett, AO (Chairman)
Mr Scott Richards (Managing Director and Chief Executive Officer)
Hon Ron Best
Mr Patrick Blake (appointed 28 June 2018)
Mr Frank Condella (appointed 30 May 2018)
Ms Nancy Dolan
Mr William (Phil) Hodges
Mr Bruce Mathieson
Prof Bruce Robinson, AM
Mr Ian Scholes

The Directors' qualifications, other listed company directorships, experience and special responsibilities are detailed on pages 33 and 34 of this report. The qualifications and experience of the Company Secretary are detailed on page 34 of this report.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the 2018 financial year are:

	BOARD		AUDIT & RISK COMMITTEE		NOMINATION COMMITTEE		REMUNERATION & PEOPLE COMMITTEE		SCIENCE, TECHNOLOGY & MEDICAL COMMITTEE	
	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]
Mr R Corbett	14	14	-	-	7	7	3	3	-	-
Mr S Richards[3]	14	13	-	-	-	-	3	3	-	-
Mr P Blake	1	1	-	-	-	-	-	-	-	-
Hon R Best	14	14	8	8	7	7	3	3	-	-
Mr F Condella	2	2	-	-	-	-	-	-	-	-
Ms N Dolan	14	14	8	8	7	7	-	-	-	-
Mr P Hodges	14	13	-	-	-	-	-	-	4	4
Mr B Mathieson[4]	14	11	-	-	2	1	-	-	-	-
Prof Bruce Robinson	14	14	-	-	-	-	-	-	4	4
Mr I Scholes	14	14	8	8	-	-	3	3	-	-

1. This column shows the number of meetings held during the period the Director was a member of the Board or Committee.
2. This column shows the number of meetings attended.
3. Mr Richards is not a member of the Remuneration and People Committee however he attends meetings at the Chairman's invitation.
4. Mr Mathieson resigned from the Nomination Committee effective 28 November 2017.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

These changes are discussed in the Principal Activities and Review of Operations and Likely Developments sections of this report.

PRINCIPAL ACTIVITIES

Mayne Pharma is an ASX-listed specialty pharmaceutical company focused on applying its drug delivery expertise to commercialise branded and generic pharmaceuticals. Mayne Pharma also provides contract development and manufacturing services to more than 100 clients worldwide.

Mayne Pharma has a 30-year track record of innovation and success in developing new oral drug delivery systems and these technologies have been successfully commercialised in numerous products that have been marketed around the world.

Mayne Pharma has two product development and manufacturing facilities based in Salisbury, South Australia and Greenville, North Carolina US with expertise in formulating complex oral dose forms including potent compounds, controlled substances, modified release products and inherently unstable compounds.

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REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

Summary of financial performance

Set out below is a summary of the financial performance attributable to Mayne Pharma shareholders for the 2018 financial year (FY18) compared to the prior corresponding period ('pcp').

This summary includes non-IFRS financial information that is stated excluding certain non-operating income and expense items. The results are set out this way as the Directors consider them to be a meaningful comparison from period to period. Earnings before interest tax, depreciation and amortisation ('EBITDA') is used as a key measure of the earnings considered by management in operating the business and assessing performance.

SALES AND PROFIT	2018 $M	2017 $M	CHANGE ON PCP $M	CHANGE ON PCP %
Reported Revenue	**530.3**	**572.6**	**(42.3)**	**(7%)**
Reported Gross profit	**256.6**	**315.8**	**(59.2)**	**(19%)**
Reported Gross profit %	*48.4%*	*55.1%*		
Adjusted EBITDA	165.3	206.5	(41.1)	(20%)
Adjustments [1]	(48.5)	17.7	(66.3)	
Reported EBITDA	**116.8**	**224.2**	**(107.4)**	**(48%)**
Impairments	(184.4)	(20.2)	(164.2)	
Depreciation / Amortisation	(79.5)	(73.3)	(6.2)	(8%)
Reported PBIT	**(147.1)**	**130.7**	**(277.8)**	
Net Interest	(17.2)	(12.1)	(5.1)	
Reported PBT	**(164.3)**	**118.6**	**(282.9)**	
Income tax expense	30.3	(30.0)	61.0	
Reported NPAT attributable to Mayne Pharma shareholders	**(133.9)**	**88.6**	**(221.9)**	

1. Current year adjustments are included in the table below. Prior period adjustments to Reported EBITDA include $22.4m net patent litigation gains ($26.2m of patent settlement income less $3.8m of litigation expenses relating to Mayne Pharma's allegation that Merck's Noxafil® product infringes a Mayne Pharma patent); $5.6m of transaction and other related costs; $5.3m credit for the revaluation of HPPI warrants; $1.5m of legal costs associated with the cost of drug pricing investigations and related litigation and $2.9m to remove the HedgePath Pharmaceuticals Inc. (HPPI) losses attributable to members of the Company.

The reconciliation of reported results and adjusted results for the current year is as follows:

SALES AND PROFIT	REPORTED ATTRIBUTABLE TO MEMBERS JUNE 2018 [1] $M	SBD - DORYX RETURNS [2] $M	GPD – STOCK ADJUSTMENTS [3] $M	RESTRUCTURING EXPENSES [4] $M	ASSET IMPAIRMENTS [5] $M	HPPI – MAYNE PHARMA'S SHARE [6] $M	DOJ [7] $M	US TAX ITEMS [8] $M	ADJUSTED JUNE 2018 $M
Revenue	530.3	12.4	-	-	-	-		-	**542.7**
Gross profit	256.6	12.4	17.3	3.1	-	-		-	**289.3**
Gross profit %	*48.4%*								*53.3%*
EBITDA	**116.8**	13.3	17.3	16.3	-	0.9	0.7	-	**165.3**
Depreciation / Amortisation	(79.5)	-	-	-	-	0.4		-	(79.1)
Asset impairments	(184.4)	-	-	-	184.4	-		-	-
PBIT	(147.1)	13.3	17.3	16.3	184.4	1.3	0.7	-	**86.2**
Net Interest	(17.2)	-	-	-	-	-		-	(17.2)
PBT	(164.3)	13.3	17.3	16.3	184.4	1.3	0.7	-	**69.0**
Income tax	30.3	(4.1)	(5.3)	(2.7)	(43.9)	(2.6)	(0.2)	19.9	**(8.7)**
PAT	(133.9)	9.2	12.0	13.6	140.5	(1.3)	0.5	19.9	**60.3**

1. The values in the above table are values attributable to members of Mayne Pharma and hence include only Mayne Pharma's share of HPPI. The Consolidated Statement of Profit or Loss and Other Comprehensive Income and supporting notes, such as Note 7 for income tax, include 100% of HPPI and hence differ from the above values.
2. SBD – Doryx® returns – represents the abnormal level of Doryx product returns and sample write-offs due the loss of exclusivity on Doryx 50mg and 200mg tablets in May 2016.
3. GPD – stock adjustments – represents the abnormal amount of inventory obsolescence, write-downs and sell through of short dated stock below cost.
4. Restructuring expenses – represents expense relating to the cancellation of specific employee shares ($7.4m), onerous supply chain contracts and other expense management initiatives to lower the cost base.
5. Asset impairments – intangible asset impairments relating to the change in the current and projected market dynamics for generic products, occurring in 1H18. The amount disclosed in the December interim result was $183.5m with the difference being the 2H18 exchange rate impact.
6. HPPI – Mayne Pharma's share of HPPI's EBITDA loss ($2.5m) less the fair value gain ($1.6m) on restatement of the value of Mayne Pharma's HPPI warrants. HPPI tax includes Mayne's share of HPPI's restatement of DTL due to the US tax rate change.
7. Drug pricing investigations and related litigation costs.
8. US tax items includes $13.3m for restatement of US related DTAs and DTLs (excluding HPPI) due to the US corporate tax rate changes and $6.6m for tax losses for a US subsidiary not recognised as a deferred tax asset.

The non IFRS financial information is unaudited.

Review of operations

In contrast to the above tables which are based on financial performance attributable to Mayne Pharma shareholders, the following information is provided on a total group basis and hence includes 100% of the revenues and expenses incurred by HedgePath Pharmaceuticals Inc ('HPPI') where applicable.

Mayne Pharma controls 53.5% of HPPI and has consolidated 100% of HPPI, in accordance with accounting standards, into the financial statements following this Directors Report.

The Group recorded revenue of $530.3m, down 7% on pcp and gross profit was $256.5m down 19% on pcp.

Gross profit margin as a percentage of revenue was 48.4% (2017: 55.1%) which reflects price deflation in the US generic market and a number of abnormal one-off items which include extraordinary stock obsolescence charges and abnormal Doryx® returns in the first half. Adjusting for these one-off items, the group gross profit margin would have been 53.3%.

The reported loss before tax was $164.3m and the net loss after tax was $133.9m.

As most of the Company's operations are US based, the strengthening of the AUD compared to the prior year had an adverse impact on the operating results for the current year compared to the pcp. The estimated impact on the current year result, determined by translating the US operations current year performance using the prior year average rate of 0.7539 instead of the current year rate of 0.7753, would have resulted in an increase to adjusted EBITDA of approximately $2m. This value excludes foreign currency gains and losses recorded by the Australian operations which largely relate to inventory and financing transactions between the Australian and US operations. The Company recorded a foreign exchange net loss of $0.2m in the current year compared to a foreign exchange loss of $3.7m in the prior period.

Expenses

Gross research and development costs (expensed and capitalised) increased by $9.2m to $45.3m. Development costs of $33.0m (2017: $27.8m) were capitalised during the period as it related to qualifying products under development in accordance with Australian Accounting Standards, leaving net R&D expenses of $12.3m (2017: $8.3m).

Marketing and distribution expenses increased by $11.7m to $61.0m due to the expanded Specialty Brands sales team.

Finance costs of $17.3m (2017: $12.3m) include interest and line fees on the USD loan facility, plus the amortisation of related borrowing costs and the unwinding of discount associated with earn-out liabilities and deferred liabilities.

Impairments of $184.4m (2017: $20.2m) were recognised following a detailed review of the Company's intangible assets in the first half of the financial year. The review considered the current and projected US market dynamics for the portfolio and the industry. The amount disclosed in the 31 December 2017 Interim Results was $183.5m, with the difference being exchange rate translation.

Administration and other expenses increased by $8.1m to $151.1m. This category includes amortisation of intangible assets which was $70.2m (2017: $67.2m) for the year. This category also includes foreign exchange losses of $0.2m (2017: $3.7m), the one-off expense relating to the cancellation of employee shares of $7.4m and other restructuring costs of $5.8m.

Tax

The tax benefit of $32.5m comprised:

- Current period income tax benefit for the year to 30 June 2018 of $1.6m;
- An increase in current year tax benefit in respect of prior years of $2.1m; and
- An increase in income tax benefit of $28.8m relating to the movement in deferred tax assets and liabilities.

Tax expense includes $8.7m ($13.3m of which relates to MYX and $4.6m credit relates to HPPI) restatement of DTAs and DTLs arising from the US tax rate change.

Financial position

Set out below is a summary of the financial position as at 30 June 2018 compared to the position as at 30 June 2017.

BALANCE SHEET EXTRACT	NOTES	2018 $M	2017 $M	CHANGE ON PCP $M	CHANGE ON PCP %
Cash		87.3	63.0	24.3	39%
Receivables		252.7	225.8	26.9	12%
Inventory		82.2	106.4	(24.2)	(23%)
PP&E		230.1	189.3	40.8	22%
Intangible assets and goodwill		1,054.5	1,235.4	(180.9)	(15%)
Other assets		123.7	88.1	35.6	40%
Total assets		**1,830.5**	**1,908.0**	**(77.5)**	**(4%)**
Interest-bearing debt		374.2	340.2	34.0	10%
Trade and other payables		152.6	147.6	5.0	3%
Other financial liabilities		17.8	41.0	(23.2)	(57%)
Other liabilities		50.7	66.8	(16.1)	(24%)
Total liabilities		**595.3**	**595.6**	**(0.3)**	**0%**
Equity		**1,235.2**	**1,312.4**	**(77.2)**	**(6%)**

The material changes to the operating assets and liabilities of the business were as follows:

Cash

Cash increased by $24.3m compared to 30 June 2017. Refer below for further commentary. Net operating cashflow was an inflow of $121.5m (2017 outflow of $15.2m), with investing cashflow $118.3m, leaving free cashflow of $3.2m. The balance of the increase in cash came from proceeds from borrowings and shares.

Inventory, receivables and trade payables

Inventory decreased by $24.2m and receivables increased by $26.9m (of which $9.0m was due to changes in exchange rates). Trade and other payables increased by $5.0m compared to the prior period.

Intangible assets and goodwill

Intangible assets decreased by $180.9m compared to the balance at 30 June 2017. The movement comprised of:

- An increase of $33.0m for capitalised development costs;
- An increase of $7.4m for additions;

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- A decrease of $70.2m for amortisation;
- A decrease of $184.4m for impairments; and
- An increase of $32.2m due to foreign currency translation as the AUD / USD exchange rate decreased from 0.7686 at 30 June 2017 to 0.7407 at 30 June 2018.

Property, plant & equipment

Property, plant and equipment increased by $40.8m compared to the balance at 30 June 2017. The movement comprised of:

- An increase of $43.8m for additions which includes the strategic capital works programs and general site maintenance capital expenditure;
- A decrease of $9.7m for depreciation; and
- An increase of $6.7m due to foreign currency translation.

The strategic investments at Salisbury, South Australia and Greenville, North Carolina were completed in FY18 to support the pipeline of products under development, the transfer in-house of products manufactured by third parties and commercial contract manufacturing.

Interest bearing liabilities

Interest bearing liabilities increased to $374.2m from $340.2m at 30 June 2017. Interest bearing liabilities in USD terms increased by US$15m with the balance of the increase in AUD terms due to the exchange rate movement.

Other financial liabilities

Other financial liabilities as at 30 June 2018 include the earn-out liabilities and deferred consideration for the Myring® distribution rights and various other product acquisitions and distribution rights.

Other financial liabilities decreased by $23.1m from 30 June 2017 due to:

- An increase of $1.5m due to the non-cash unwinding of the discount for the various earn-out liabilities;
- A decrease of $1.8m due to re-assessments of various earn-out liabilities;
- A decrease of $23.4m due to payments made; and
- An increase relating to foreign currency translation of $0.6m.

Equity

Equity movements include the current year loss of ($134.2m) and other comprehensive income of $42.0m for a net movement of ($92.4m).

Cash flow

A summary of the net operating cash flows is as follows:

	2018 $M	2017 $M
Operating cash flow before working capital movements	116.7	165.7
Working capital (investment) / release	4.8	(180.9)
Net Operating cash flows	121.5	(15.2)

Net operating cash for FY18 was an inflow of $121.5m after including $8.0m of net tax payments, $15.1m of net interest payments, $3.3m net working capital release and $5.1m net outflow from one-off items.

Cash on hand at 30 June 2018 was $87.3m representing an increase of $24.3m from 30 June 2017.

The Company had bank debt of $374.1m at 30 June 2018.

Notable cash flows during the period included:

- $43m in payments for research and development (includes expensed and capitalised);
- Earn-out and deferred settlement payments totalling $23m; and
- $54m in capital expenditure across the Group mainly relating to the strategic capital works programs.

Research and development

The Company continues to commit substantial resources in terms of people, and research and development spend to develop and advance its pipeline globally. In FY18, the Company incurred, in total cost terms, $45.3m in research and development of which 73% (2017: 77%) was capitalised over the period to be amortised in the future in accordance with Australian Accounting Standards.

Mayne Pharma's development pipeline includes over 30 products targeting US markets with sales greater than US$5bn[1]. The Company has 15 products pending approval at the FDA with a total market value of more than US$2.5bn[1]. During the year, the Company filed eight products with the FDA including a New Drug Application (NDA), received FDA approval for five generic products and launched six generic products in the US. In Australia, the Company launched two specialty brands products.

The Company continues to progress the commercialisation of its patented formulation of itraconazole for the treatment of certain fungal conditions and as a potential treatment for certain cancers. SUBA®-Itraconazole is a proprietary, patented formulation that enhances the solubility and

[1] IQVIA, MAT Sales Jun 2018

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absorption of conventional itraconazole formulations.

In Australia, SUBA-Itraconazole continues to perform well capturing 34% volume share of the itraconazole market [2]. Since launch, the overall itraconazole market has grown 18% annually benefiting from increasing diagnosis and treatment of fungal conditions as well as growing its share of the anti-fungal market. Over the next year, the Company expects to launch SUBA-Itraconazole in another six countries, including the US following the acceptance of the NDA in May 2018. If approved in the US, this product would be commercialised through the Specialty Brands business unit calling on a range of specialists that treat patients with, or at risk of, certain fungal infections.

The SUBA-Itraconazole cancer program is being progressed by HPPI, a partly owned subsidiary (53.5% ownership) of Mayne Pharma, which has a pre-NDA Meeting scheduled with the FDA in anticipation of a potential filing of its NDA later this year. HPPI plans to commercialise SUBA-Itraconazole as a treatment for Basal Cell Carcinoma Nevus Syndrome (BCCNS, also known as Gorlin Syndrome).

Mayne Pharma continues to invest in the development of new generic products focusing on first-to-market, hard to develop and manufacture products utilising advanced drug delivery systems and potent handling capabilities. The Company has seven generic products pending approval with no generic equivalents today targeting markets with sales of more than US$2.0b[3]. The most significant of these is the Company's filing of generic NuvaRing®, an intra vaginal hormonal contraceptive delivery device. Merck's NuvaRing had total US sales of US$890m[3].

Reporting Segments

The Consolidated Entity operates in four reporting segments, being Generic Products ('GPD'), Specialty Brands ('SBD'), Metrics Contract Services ('MCS'), and Mayne Pharma International ('MPI').

Refer to Note 2 for further information about the reporting segments.

GPD

$MILLION	2018 $M	2017 $M	CHANGE %
Revenue	385.7	418.7	(8%)
Gross profit	177.4	218.3	(19%)
Gross profit %	46%	52%	

Nature of operations

GPD's revenues and gross profit are derived principally from the manufacture and distribution of generic pharmaceutical products in the US.

FY18 performance

The GPD reporting segment's sales were $385.7m, down 8% on FY17 and gross profit was $177.4m down 19% on FY17.

In US dollar terms, sales were down 5% to US$299.0m impacted by price deflation pressures including aggressive contracting behaviour from the major wholesaler/retailer buying alliances in 2017. The generic portfolio performed strongly in the second half of FY18 with sales and gross margin up 12% and 78% respectively on the first half of FY18 driven by new product launches, normalised levels of stock obsolescence, improving business mix and cost savings from the transfer of manufacturing into Greenville and Salisbury from third parties. Key drivers of performance were dofetilide, liothyronine, doxycycline and carbidopa/levodopa.

SBD

$MILLION	2018 $M	2017 $M	CHANGE %
Revenue	44.7	61.9	(28%)
Gross profit	37.5	58.6	(36%)
Gross profit %	84%	95%	

Nature of operations

The SBD reporting segment markets and distributes specialty branded pharmaceutical products in the US.

FY18 performance

The SBD reporting segment's sales were $44.7m, down 28% on FY17 and gross profit was $37.5m down 36%.

In US dollar terms, SBD's sales were US$34.7m down from US$46.6m in the prior year. These results were negatively impacted by US$10m of Doryx returns in the first half of FY18 which related to the loss of exclusivity on legacy Doryx 50mg and 200mg tablets in May 2016.

The division's performance improved in the 2HFY18 versus the 1HFY18 with reported sales up 123% and adjusted sales (excluding Doryx returns) up 17% driven by the two foam products Fabior® and Sorilux®. The expansion of the sales team to 114 specialty sales representatives in the first half has helped drive the growth in underlying demand of these products, as measured by dispensed prescriptions. The average weekly prescriptions for Fabior were up 30% and Sorilux up 77% in the 2HFY18 versus the 1HFY18[4].

[2] IQVIA, MAT units (tablet/capsules), Dec 2017
[3] IQVIA, MAT Sales Jun 2018
[4] IQVIA, TRx Jun 2018

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MCS

$MILLION	2018 $M	2017 $M	CHANGE %
Revenue	63.1	57.8	9%
Gross profit	33.7	32.1	5%
Gross profit %	53%	55%	

Nature of operations

MCS' revenue and gross profit are derived from the provision of contract analytical and pharmaceutical development services to third-party customers principally in the US.

FY18 performance

The MCS reporting segment's sales were $63.1m up 9% on FY17 and gross profit was $33.7m up 5% on FY17.

In US dollar terms, sales were up 12% to US$48.9m with MCS now delivering three years of double digit growth. The strong performance reflects the strategic investments made in Greenville over the last three years in new manufacturing capacity and capability which has enabled MCS to attract new business as well as create a pipeline of commercial contract manufacturing business. During the year, MCS received its first commercial contract manufacturing revenues from a full service client. The committed business pipeline (next six months of signed purchase orders / statements of work) grew 50% over the year.

MPI

$MILLION	2018 $M	2017 $M	CHANGE %
Revenue	36.8	34.3	7%
Gross profit	8.0	6.8	18%
Gross profit %	22%	20%	

Nature of operations

MPI's revenues and gross profit are derived principally from the Australian manufacture and sale of branded and generic pharmaceutical products globally (ex-US) and provision of contract manufacturing services to third party customers within Australia.

FY18 performance

The MPI reporting segment's sales were $36.8m up 7% and gross profit was $8.0m, up 18%.

Australian sales benefited from increased sales of aspirin, injectables, itraconazole and oxycodone. New product launches of Monurol® (fosfomycin) and Urorec® (silodosin) also contributed to the result. Rest of world sales grew 11% driven by morphine sales in Canada and SUBA-itraconazole sales in Europe. The stronger gross margin reflects improving business mix and renegotiation of supply agreements.

Strategy

Mayne Pharma is using its world-class oral drug delivery expertise to build a global speciality pharmaceutical company. The Company is focused on increasing the breadth of its product portfolio, technologies and footprint.

The Company's core strategic priorities include the following:

KEY GROWTH DRIVER	ACTIVITIES
US retail generics expansion	• Create highly efficient, focused R&D organisation with access to an array of differentiated dosage forms • Addition of high value, high complexity products to portfolio via internal R&D, strategic alliances and other complementary business development activities
Specialty Brands expansion	• Category leadership in medical dermatology • Maximise value of existing brand portfolio through targeted additional development and clinical activities • R&D commitment to clinical and early stage programs that have global application and address high unmet medical needs • Selectively invest in relevant therapeutic areas – infectious disease, oncology, rare diseases
Leverage and diversify drug delivery platforms	• Further investment in drug delivery technologies, capabilities and expertise to enhance MCS offering • Extension into relevant, complementary drug delivery platforms – potent topicals • Selectively pursue co-development opportunities with high quality MCS client base

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KEY GROWTH DRIVER	ACTIVITIES
Commercial execution	• Multichannel product distribution strategy to diversify customer base (specialty pharmacy, government, telesales) • Expanding prescriber and patient reach • Multifaceted marketing campaigns driving sales force effectiveness • Disciplined approach to optimising value and profitability per product
Operational excellence	• Capacity expansions across Greenville and Salisbury recently completed to improve product margins, quality and customer service • Optimise manufacturing network to drive cost efficiencies and flexibility • Develop organisational competency in Lean manufacturing systems and supply chain excellence

Material business risks

The Company maintains a risk register and the material residual business risks are regularly reported on and discussed with the Audit & Risk Committee. The following details some of the key business risks that could affect Mayne Pharma's business and operations but are not the only risks Mayne Pharma faces. Other risks besides those detailed below could adversely affect Mayne Pharma's business and operations.

RISK	NATURE OF THE RISK	ACTIONS / PLANS TO MITIGATE
Internal product development	• Failure to establish bioequivalence and meet end points in clinical trials • Development of new intellectual property and products takes longer and is more expensive than forecast • Product development projects may not be commercialised, requiring capitalised spend to be written off	• Recruitment of experienced product development personnel • Disciplined and risk-balanced product selection process • Robust business cases developed for selected products • Regular monitoring of product development progress • Input from regulatory authorities before and during the development process
In-market pricing and competitive intensity	• Competitive dynamics for a product become unfavourable • Sales of our products may be adversely impacted by continuing consolidation of the customer base • New competitors enter a market or competitors increase market share • Inability to obtain or delays in obtaining satisfactory pricing and reimbursement from government bodies, national health authorities and other third parties	• Recruitment of experienced sales and marketing personnel • Disciplined and risk balanced product selection process • Strong systems and processes to monitor and manage the performance of each product and customer relationship • Diversify channels to market
Customer relationships	• Loss of a key customer • Inability to renew contracts on similar terms • Inability to attract new customers • Customers fail to honour payment obligations	• Recruitment of experienced sales and marketing and business development personnel • Management of customer pricing, economics and contract compliance • Strong systems and processes to manage and monitor collections
Regulatory compliance	• Loss of regulatory compliance certification for production facilities	• Recruitment of experienced quality and production personnel • Strong systems and processes to manage and monitor compliance
Product cost inflation	• Increasing cost of active pharmaceutical ingredients and other components • Interruptions to supply of raw materials and drug product	• Exclusive supply arrangements, where appropriate • Distribution arrangements with partners allow for rising input costs to be passed through to customers • Back-up supply of key raw materials
Foreign exchange movements	• Adverse movements in exchange rates	• Hedging of net receipts in accordance with Company policy
Product liability	• Serious adverse event with consumers and potential product liability risks in marketing and use of products	• Medical information, pharmacovigilance, quality and (where appropriate) usage monitoring systems established and maintained • Allocate or share risk with distribution partners where appropriate • Appropriate insurance cover
Intellectual property	• Infringement of third party intellectual property rights • Loss or infringement of owned intellectual property	• Disciplined product selection process taking into account possible intellectual property infringement • Implementation of a robust intellectual property strategy • Allocate or share risks with manufacturing partners where appropriate

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RISK	NATURE OF THE RISK	ACTIONS / PLANS TO MITIGATE
Legal	• Litigation and other proceedings taken against the Company	• Recruitment of experienced legal personnel • Limit liability in contractual relationships where possible • Provide for resolution of international disputes through mediation and arbitration where possible
Plant expansion	• Product transfers are delayed or cannot be manufactured at the new site • Under absorption of overhead	• Maintaining the right level of skill and experience within manufacturing facilities • Appropriate risk based controls over all manufacturing facilities • Regular review of quality systems to ensure currency and efficiency via management review and continuous improvement strategies
Asset impairments	• The recoverable amount of non-current assets, including brands and goodwill may be assessed to be less than the carrying value and an impairment charge may be recognised	• Assets are tested regularly for impairment • Capitalisation policies and useful lives of assets are reviewed by external auditors
Acquisition risk	• Integration of acquisitions can take longer than expected, divert management attention and not deliver the expected benefits	• Conduct detailed due diligence of acquisitions and engage third parties where relevant for expert advice • Preparation of detailed operational/integration plans and ongoing monitoring of acquisitions following completion
Government policy	• New or changes made to government legislation and regulations	• Monitoring actual or anticipated changes in government policies
Occupational health and safety	• Failure to comply with environmental health and safety regulations, laws and industry standards • Injury to employees or contractors that causes legal liability • Failure to safely and appropriately handle hazardous and toxic materials	• Regional Environmental, Health and Safety ('EHS') Management Systems have defined policies, procedures and work practices for the elimination or mitigation of EHS hazards and risks
Information technology	• Cyber threats • Disruptions or failures in our information technology systems and network infrastructure	• Recruitment of experienced IT personnel • Implementation of protective measures such as firewalls, antivirus, data encryption, routine back-ups, system audits, disaster recovery procedures

The above list does not represent an exhaustive list and it may be subject to change based on underlying market events and developments in the Company's operations.

Outlook

The US pharmaceutical market continues to be extremely dynamic with potential government policy changes, ongoing channel shifts through vertical integration of the supply chain across wholesalers, retailers, pharmaceutical benefit managers and insurers. In addition, major participants such as Teva, Mylan, Perrigo and Novartis have announced plans to complete strategic reviews, restructure their operations or divest certain US assets.

Notwithstanding these conditions, the Company remains focused on executing on its key strategic initiatives which include diversifying channels to market, growing share of marketed products, extracting product cost savings from optimising the supply chain network, bringing new products to market and further business development activity. The Company will continue to drive organic growth and pursue shareholder value accretive business development opportunities, such as the recently completed the acquisition of generic Efudex®, while improving profitability and cashflow through an efficient operating model.

DIVIDENDS

The Directors have not declared an interim or final dividend for the 2018 financial year.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 23 July 2018, Mayne Pharma announced it completed the acquisition of generic Efudex (fluorouracil cream 5%) from Spear Pharmaceuticals, Inc. for US$20.0 million (comprising US$16.0 million in cash and US$4.0 million in Mayne Pharma equity) plus contingent payments of up to US$10.0 million. The deferred payments are contingent upon competitive dynamics in the product market over the next three years. Spear's generic Efudex net sales were US$3.0 million in the first quarter of calendar 2018.

No other matter or circumstance has arisen since the reporting date which is not otherwise reflected in this report that significantly affected or may significantly affect the operations of the Group.

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DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

MR ROGER CORBETT AO, BCom, FAIM
Independent Chairman
Appointed 17 November 2010

Mr Corbett joined the Board of Mayne Pharma Group Limited in November 2010 and was appointed Chairman in January 2011. Mr Corbett has been involved in the retail industry for more than 40 years. In 1984, Mr Corbett joined the board of David Jones Australia as a Director of Operations and in 1990 was appointed to the board of Woolworths Limited and to the position of Managing Director of BigW. In 1999, Mr Corbett was appointed Chief Executive Officer of Woolworths Limited, from which he retired in 2006. Mr Corbett was Chairman of Fairfax Media Limited, one of Australia's largest diversified media companies from October 2009 until 31 August 2015. Mr Corbett was a Director of the Reserve Bank of Australia until 1 December 2015 and was a director of Wal-Mart Stores until May 2016. He is Chair of Australian Leisure and Hospitality Group Pty Limited (ALH Group) and Molopo Energy Limited.

In addition to being Chairman of the Board, Mr Corbett is Chair of the Remuneration and People Committee and is a member of the Nomination Committee.

MR SCOTT RICHARDS
Executive Director and Chief Executive Officer
Appointed 13 February 2012

Mr Richards has more than 28 years' international experience in the pharmaceutical industry and has worked in Europe, the US and Asia. Prior to joining Mayne Pharma, Mr Richards spent 10 years in Europe in a variety of leadership roles including President, Europe Middle East and Africa and President, Global Commercial Operations for Mayne Pharma Limited (acquired by Hospira in 2007). He also served on the Group Management Board of Actavis for 4 years where he was responsible for the firm's global injectable/hospital business operations. Prior to working in Europe, Mr Richards spent 14 years with FH Faulding and Co (acquired by Mayne Nickless in 2001) in a variety of roles including leading Faulding Pharmaceuticals Asia Pacific operations together with spending 5 years with Faulding in the US leading business development and portfolio management operations. Mr Richards' experience spans sales and marketing, regulatory/medical affairs, supply chain, business development, mergers and acquisitions, finance, intellectual property and manufacturing.

HON RON BEST
Independent Non-Executive Director
Appointed 21 July 2006

The Hon Ron Best is a highly respected former member of the Victorian Parliament (1988 to 2002), having held senior positions in the National Party of Australia (Victoria) including Parliamentary Secretary, Shadow Minister for Housing and Spokesman for Health, Housing, Racing, Sport and Recreation. Mr Best has also been a member of various Parliamentary Committees including the Public Accounts and Estimates Committee, the Environmental and Natural Resources Committee and a Board Member of the Victorian Health Promotion Foundation. Prior to his political career, Mr Best was the owner of a successful food distribution business and General Manager of the Glacier Food Group. Since retiring from politics in 2002 Mr Best has consulted for privately-owned companies in the food services industry.

Mr Best is Chairman of the Nomination Committee and a member of the Audit & Risk Committee and the Remuneration and People Committee.

MR PATRICK BLAKE
Independent Non-Executive Director
Appointed 28 June 2018

Mr Blake, a US resident, has over 30 years of global healthcare industry experience including more than 20 years at McKesson Corporation, one of the largest healthcare services and information technology companies globally, and more than 10 years at Baxter Healthcare Corporation. Most recently, he was Executive Vice President of McKesson Corporation and Group President of McKesson Technology Solutions which services the health IT needs of hospitals and health systems, payers, physicians, homecare agencies, retail pharmacies and manufacturers, a position he held from 2009 until 2017. Previously, he was President of McKesson Specialty Health, a business focussed on the US specialty/biotech sector which was McKesson's fastest growing business for three years during his leadership. He was also President of Customer Operations for McKesson Pharmaceutical (US) from 2000 to 2006, leading commercial sales and operations for the wholesale distribution of branded, specialty and generic pharmaceuticals and other related products.

MR FRANK CONDELLA
Independent Non-Executive Director
Appointed 30 May 2018

Mr Condella, a US resident, has over 30 years of experience in senior executive roles in the global pharmaceutical industry. Most recently, he was President and Chief Executive Officer of Juniper Pharmaceuticals, a specialty pharmaceutical company based in Boston focused on developing women's health therapeutics and providing contract development services to clients, a position he held from 2009 until 2016. Previously, he was Chief Executive Officer of Skyepharma plc, President of European operations at IVAX (now part of Teva), Chief Executive Officer of Faulding Pharmaceuticals, Vice President of Specialty Care Products at Roche and Vice President and General Manager of the Lederle Standard Products unit of American Home Products (Pfizer). Mr Condella was a director of Skyepharma plc until it merged with Vectura plc in 2016 when Mr Condella became, and continues to be, a director of Vectura plc.

Mr Condella is a member of the Science, Technology and Medical Committee.

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MS NANCY DOLAN, BA, LLB
Independent Non-Executive Director
Appointed 21 September 2016

Ms Dolan has over 30 years' experience in the legal and commercial services sector. Ms Dolan is currently Chair of the Professional Conduct Oversight Committee at Chartered Accountants Australia and New Zealand. She has an honours degree in law from Victoria University of Wellington and an arts degree from the University of Canterbury in New Zealand. She was previously General Counsel and a Principal Officer at the University of Sydney, a Partner at PricewaterhouseCoopers responsible for legal affairs in the Asia Pacific region and a Partner at Mallesons Stephen Jacques (now King & Wood Mallesons). Ms Dolan was previously on the Advisory Board of the Sydney Medical School, on the Professional Standards Council for the Salvation Army, a member of the Advisory Committee for Salvos Legal and on the Salvation Army Advisory Board (Eastern Territory).

Ms Dolan is a member of the Audit & Risk Committee.

MR WILLIAM (PHIL) HODGES, MS, BSC
Independent Non-Executive Director
Appointed 15 November 2012

Mr Hodges has been involved in the pharmaceutical industry for over 30 years and founded the Metrics business in 1994. Since 1994, Mr Hodges oversaw the transition of Metrics from a start-up analytical laboratory with four employees to a specialty pharmaceutical company with a portfolio of niche generic products. Prior to starting Metrics, Mr Hodges spent 11 years at Burroughs Wellcome Co. (which became part of GSK) in the development and validation of analytical methods. Mr Hodges ceased his executive role as President of Metrics on 31 December 2013 but continues as a Non-Executive Director of Mayne Pharma Group Limited. He is Chair of Chesson Laboratories, Associates, Inc.

Mr Hodges is a member of the Science, Technology and Medical Committee.

MR BRUCE MATHIESON
Independent Non-Executive Director
Appointed 16 February 2007

Mr Mathieson is currently a Director and was the former Chief Executive Officer of ALH Group, a joint venture between Woolworths Limited and the Mathieson Family. The ALH Group owns approximately 325 hotels and 520 retail outlets across Australia and employs more than 16,000 staff. Mr Mathieson has operated in the hotel, leisure and hospitality industry since 1974 and is a well-respected member of the Australian business community. He has previously served as a Director of the Carlton Football Club. He is trained as an engineer and brings management and transactional experience from a number of industries to the Board.

PROF BRUCE ROBINSON, AM, MD, MSC, FRACP, FAAHMS, FAICD
Independent Non-Executive Director
Appointed 26 August 2014

Professor Robinson, a practising Endocrinologist at Sydney's Royal North Shore Hospital, is Former Dean of University of Sydney's Sydney Medical School. Professor Robinson has been the head of the Cancer Genetics Unit at the Kolling Institute of Medical Research, Royal North Shore Hospital since 1989. Since 2001, Professor Robinson has been Chairman of Hoc Mai Foundation, a major program in medical and health education and exchange with Vietnam. He is a Non-Executive Director of Cochlear Limited, Firefly and QBiotics Group Limited. He is a Board Member of the Woolcock Institute, is Chair of National Health and Medical Research Council and Chair of the Medical Benefits Review Taskforce.

Prof Robinson is Chairman of the Science, Technology and Medical Committee.

MR IAN SCHOLES BCom, CA
Independent Non-Executive Director
Appointed 17 October 2007

Mr Scholes has extensive financial and corporate advisory experience, both in Australia and internationally. Mr Scholes held a number of senior roles within Merrill Lynch Australia, including Vice Chairman of Investment Banking. Previously Mr Scholes held the position of Executive General Manager at National Australia Bank Limited, running the corporate and institutional banking division. Mr Scholes is currently a Partner and Chief Executive Officer of Chord Capital Pty Ltd. Mr Scholes has previously held positions on the Board of St Vincent's Health as Chairman of the St Vincent's Foundation and was a former Director of SDI Limited.

Mr Scholes is Chairman of the Audit & Risk Committee and a member of the Remuneration and People Committee.

COMPANY SECRETARY

Mr Nick Freeman, BCom, CA (Group CFO and Company Secretary) was appointed as the Company Secretary on 24 May 2017. Mr Freeman is a Chartered Accountant with 29 years' experience in the accounting and finance profession. Mr Freeman has extensive experience in the areas of business development, mergers and acquisitions, integration management, tax, financial planning and reporting, risk management, treasury and investor relations.

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DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

The relevant interest of each Director in the share capital of the Company as at the date of this report is as follows:

	FULLY PAID ORDINARY SHARES	RESTRICTED ORDINARY SHARES ISSUED UNDER LONG TERM INCENTIVE PLAN WITH NON-RECOURSE LOANS
Mr R Corbett	10,440,569	-
Mr S Richards	5,985,369	15,227,881
Mr P Blake	-	-
Hon R Best	1,587,217	-
Mr F Condella	-	-
Ms N Dolan	74,500	-
Mr P Hodges	6,739,554	-
Prof B Robinson	634,895	-
Mr B Mathieson	98,777,583	-
Mr I Scholes	2,158,636	-

UNISSUED SHARES UNDER OPTION

As at the date of this Directors' Report there were 8,589,000 unissued ordinary shares under option (8,929,000 at the reporting date). Details of these options are as follows:

DATE OPTIONS GRANTED	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER OPTION
11 January 2013	12 January 2019	$0.2184	2,600,000
25 January 2013	26 January 2019	$0.2184	569,000
21 April 2014	11 November 2019	$0.6647	1,000,000
1 May 2014	21 October 2019	$0.5923	320,000
1 May 2014	30 November 2019	$0.6754	1,000,000
19 August 2014	28 March 2019	$0.8003	540,000
19 August 2014	19 June 2019	$0.7701	600,000
19 August 2014	30 June 2019	$0.8188	400,000
19 August 2014	2 July 2019	$0.8109	200,000
19 August 2014	1 August 2019	$0.7437	200,000
19 August 2014	28 August 2019	$0.7682	600,000
29 January 2015	1 February 2020	$0.5347	900,000
Total			8,929,000

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

SHARE OPTIONS GRANTED

No share options were granted during the financial year.

Further details of options are contained in Note 26 of the financial statements.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year options have been exercised to acquire a total of 5,115,000 fully paid ordinary shares in Mayne Pharma Group Limited at a weighted average exercise price of $0.2989 per share.

NON-AUDIT SERVICES

The Company's auditor, EY Australia ('EY'), provided the non-audit services listed below. The Directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

EY received or are due to receive the following amounts for the provision of non-audit services:

	2018 $	2017 $
Taxation services	105,465	202,000
Other assurance	280,029	282,500
Total	385,494	484,500

INDEMNIFICATION AND INSURANCE OF OFFICERS AND INDEMNIFICATION OF AUDITORS

The Company's constitution (rule 11.1(a)) requires the Company to indemnify every officer of the Company and its wholly owned subsidiaries against liabilities incurred in their role as officer, only to the extent permitted by the Corporations Act 2001. The indemnity will not apply to liabilities arising out of conduct involving a lack of good faith. The Company has entered into a Deed of Access, Insurance and Indemnity with each of the Directors, KMP and others holding officer positions in the Company or any of the wholly owned subsidiaries. Each Deed of Access, Insurance and Indemnity indemnifies the relevant officer, to the extent permitted by law, against any liability incurred by the relevant officer as an officer of the Company or as an officer of a subsidiary, including legal costs (for an unspecified amount). The Deeds of Access, Insurance and Indemnity also require the Company to (subject to the Corporations Act 2001) use its best efforts to effect and maintain a D&O policy covering the relevant officers during each officer's term of office and for seven years thereafter.

During the financial year, the Company maintained an insurance policy which indemnifies the Directors and officers of the Company and its subsidiaries in respect of any liability incurred in the performance of their duties as Directors or officers of the Company or its subsidiaries, other than for matters involving a wilful breach of duty or a contravention of sections 182 or 183 of the Corporations Act 2001 as permitted by section 199B of the Corporations Act 2001. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

To the extent permitted by law and professional regulations, the Company has agreed to indemnify its auditors, EY, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit but excluding any claims which are finally determined to have resulted from EY's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify EY during or since the financial year. Such an indemnity is permitted under rule 11.1(a) of the Company's constitution.

ENVIRONMENT, HEALTH AND SAFETY (EHS) REGULATION AND PERFORMANCE

The Group's operations are subject to various EHS laws and regulations and, where required, the Group maintains EHS licenses and registrations in compliance with applicable regulatory requirements. The Group has mechanisms in place to monitor for changes to regulatory requirements and ensure ongoing compliance with any new requirements.

The Group has EHS policies and procedures in place designed to ensure compliance with all EHS regulatory requirements and to continuously improve the health and safety of our workplace and environmental sustainability of our operations.

The EHS function continues to refine and improve the Company's standards, processes and performance through the ongoing development and maintenance of an EHS management system focussed on the identification and assessment of EHS hazards and effective management of EHS risks by applying sound risk management principles.

The Group monitors EHS outcomes on a regular basis and provides reports including, but not limited to, performance data such as injury rates, utilities consumption, waste disposal, waste discharges and emissions to various internal and external stakeholders. The operating sites in Salisbury and Greenville are subject to periodic inspections by EHS regulators; several inspections occurred during the year by the relevant authorities.

The Directors are not aware of any material breaches of EHS regulations by the Group.

ROUNDING

Amounts in this report and in the financial report have been rounded off in accordance with ASIC Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, to the nearest thousand dollars or, in certain cases, to the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

The signing partner for the auditor is normally required to be rotated at least every five years, and the auditor is required to make an independence declaration annually. The Company notes that, in accordance with the requirements of the Corporations Act 2001, the Board and the Audit & Risk Committee has approved Mr Ashley Butler to act as the signing partner for Ernst & Young for an additional two years for financial years 2016-2017 and 2017-2018 due to the significant increase in the Company's US operations and requiring continuity of expertise as the Company changed auditors of the US operations during the prior financial year from CRI to Ernst & Young.

The Auditor's Independence Declaration has been received from EY and is included on page 44 of this report.

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REMUNERATION REPORT (AUDITED)

This report outlines the specific remuneration arrangements in place for the key management personnel ('KMP') and the broader remuneration policies and philosophy adopted by the Board. KMP are those persons in the Group having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

During the year, the Board introduced a new minimum shareholding policy for Non-Executive Directors. The policy outlines an expectation that Non-Executive Directors will accumulate at least 1x base remuneration in Mayne Pharma shares within the first three years following their appointment. The Board believes this will ensure close alignment between Non-Executive Directors and shareholders over the long term, particularly for new appointees.

With the CEO's relocation to the US during the year, he now receives a living away from home allowance, relocation support and other typical expatriate benefits as well his fixed remuneration package which was not changed during the year.

As outlined in the December half year results, 16.1m employee LTI loan shares were cancelled as they were not providing an incentive for employees (grant prices greater than $1.90 and vesting hurdles greater than $2.00) yet the Company was incurring a significant expense for these shares. On cancellation, the Company, in accordance with AASB2 recognised all future expense for these shares in the current period. As required by disclosure requirements the expense relating to the cancelled shares, and pertaining to KMP, is included in the remuneration tables even though no employee received any actual benefit from these shares.

There were no significant changes to remuneration policies during the year.

This Report forms part of the Directors Report and has been audited in accordance with section 300A of the Corporations Act 2001.

1. KEY MANAGEMENT PERSONNEL DETAILS

Non-Executive Directors:

- Mr Roger Corbett, AO - Independent Chairman
- Hon Ron Best - Independent Non-Executive Director
- Mr Patrick Blake - Independent Non-Executive Director
- Mr Frank Condella - Independent Non-Executive Director
- Ms Nancy Dolan - Independent Non-Executive Director
- Mr Phil Hodges - Independent Non-Executive Director
- Mr Bruce Mathieson - Independent Non-Executive Director
- Prof Bruce Robinson, AM - Independent Non-Executive Director
- Mr Ian Scholes - Independent Non-Executive Director

Executive Directors:

- Mr Scott Richards - Managing Director and Chief Executive Officer

Other executive KMPs:

- Mr Nick Freeman - Group CFO and Company Secretary
- Mr Stefan Cross - President International Operations
- Dr Ilana Stancovski - Chief Scientific Officer and Head of European Market Development
- Ms Kate Rintoul - Executive Vice President and General Counsel
- Mr Peter Paltoglou - Chief Development Officer and Head of M&A
- Ms Lisa Pendlebury - Vice President Investor Relations and Communications
- Mr John Ross - President Mayne Pharma USA
- Mr Andrew Van Breugel - General Manager & Operations Director Salisbury (KMP up to 31 Dec 2017)
- Mr Eric Evans - Mayne Pharma USA CFO (resigned 18 August 2017)

The Corporate Executive Committee ('CEC') monitors business strategy and performance, guides strategic allocation of resources and capital, assesses and mitigates material business risks and sets the framework for interaction and management of external stakeholders and influencers. All CEC members are considered to be KMP.

2. REMUNERATION GOVERNANCE

The Board of Directors has delegated the responsibility for determining and reviewing compensation arrangements for the Directors, members of the KMP and the balance of the CEO's direct reports to the Remuneration and People Committee ('RPC').

The RPC is made up of three Non-Executive Directors. The CEO, Group CFO and the Vice President, Group Human Resources attend meetings as required at the invitation of the Committee Chair.

The RPC assesses the appropriateness of the nature and amount of emoluments of such Directors and officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and executive team. Such Directors and officers are paid their base emolument in cash only.

To ensure the RPC is fully informed when making remuneration decisions it seeks advice from the Company's Vice President, Group Human Resources as well as specialist advice from external remuneration consultants. The RPC continued to engage independent remuneration consultants KPMG-3dc (formerly 3 degrees consulting) during the year.

The fees payable for 2018 to KPMG-3dc for remuneration advice were $46,975 which included remuneration recommendations as defined under the *Corporations Act 2001*.

The RPC is satisfied that the advice received from KPMG was free from undue influence from the KMP to whom the recommendations may have related as KPMG were engaged by, and reported directly to, the Chair of the RPC.

Remuneration Report approval at the 2017 Annual General Meeting

The FY17 Remuneration Report received strong shareholder support at the 2017 AGM with a vote of 93% in favour. A resolution covering the issue of shares under the Long-Term Incentive ('LTI') share loan scheme to the CEO also received strong support with 87% of votes in favour.

3. REMUNERATION POLICY

In general, the Board links the nature and amount of KMP and other senior executives' emoluments to the Company's financial and operational performance. Given the nature of the industry in which the Company operates and the position it is in regarding the on-going development of new products, the review of performance can also give regard to elements such as the scientific progress and commercialisation of the Company's projects, results of trials, progress with the development of relationships with sales and marketing partners, research institutions, and other collaborations.

Remuneration paid to the Company's Directors and senior executives is also determined with reference to the market level of remuneration for other listed development, pharmaceutical and manufacturing companies in Australia and the US. Specific roles are also benchmarked against similar roles in other listed companies with similar market capitalisation to Mayne Pharma. This assessment is undertaken with reference to published information provided by various executive search firms operating in the sector.

4. ELEMENTS OF KMP REMUNERATION

Remuneration packages may contain the following key fixed and performance-based elements:

- Short-term benefit – salary/fees, annual leave and other benefits such as novated lease payments;
- Post-employment benefits – superannuation;
- Share-based payments – share options granted under the Company's approved option plans and LTI shares granted under the non-recourse loan arrangements as disclosed in Note 26 to the financial statements;
- Long-term benefits – long service leave; and/or
- Termination payments.

Fixed remuneration

Managing Director and Officers

Fixed remuneration consists of a base remuneration package, which generally includes salary and employer contributions to superannuation funds.

Fixed remuneration levels for KMP and other senior executives are reviewed annually by the Board through a process that considers personal development, achievement of key performance objectives for the year, internal relativities, industry benchmarks wherever possible and CPI data.

In assessing fixed remuneration, the Board has considered the increasing scale and complexity of the operations of Mayne Pharma, and the remuneration paid to comparable roles in other listed development, pharmaceutical and manufacturing companies in Australia and the US. Specific roles are also benchmarked against similar roles in other listed companies with similar market capitalisation to Mayne Pharma, both in Australia and the US.

The CEO's fixed remuneration during the period was $900,000. With the CEO's relocation to the US during the year, he also receives a living away from home allowance, relocation support and other typical ex-pat benefits such as car lease, rental allowances, medical benefits and return flights to Australia.

Non-Executive Directors

Total remuneration for Non-Executive Directors is determined by resolution of shareholders. The maximum available aggregate cash remuneration approved for Non-Executive Directors at the 2015 Annual General Meeting is $1,200,000. Non-Executive Directors do not receive retirement benefits other than a superannuation guarantee contribution required by government regulation for Australian Directors, which is currently 9.5% of their fees, except where a Non-Executive Director elects to have their fees paid as contributions to a superannuation fund.

During the year, the only change made to Director salaries was to align US and Australian Directors' total remuneration. Until June 2018, US Directors were effectively paid less than Australian Directors as they did not receive the 9.5% superannuation guarantee contribution. From 1 June 2018, US Director Fees were increased from $120,000 to $131,400 annually.

During the year, the Board introduced a new minimum shareholding policy. The policy outlines an expectation that Non-Executive Directors will accumulate at least 1x base remuneration in Mayne Pharma shares within the first three years following their appointment. The Board believes this will ensure close alignment between Non-Executive Directors and shareholders over the long term, particularly for new appointees.

Non-Executive Directors may provide specific consulting advice to the Group upon direction from the Board. Remuneration for this work is made at market rates. No such consulting advice was provided to the Company during the year.

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Performance-linked remuneration

Remuneration packages for KMP and senior executives have traditionally included the entitlement to short-term incentives ('STI') in the form of cash bonuses, and the entitlement to LTI through the award of options over ordinary shares under the Chief Executive Officer Share Option Plan, and to other executives under the Employee Share Option Plan.

In prior years, STIs for senior executives were removed and replaced with an amended LTI based on annual grants under the new Executive Share Loan Scheme ('ESLS'). The ESLS loan scheme was implemented to ensure that these executives are focussed on the long-term growth of shareholder value.

The ESLS allows the issue of shares to participants based on a percentage of fixed remuneration funded by a non-recourse loan. Issues will be made annually to KMP and other senior executives who have foregone their STI entitlement.

Under the ESLS, eligible senior management are provided with non-recourse loans from the Group for the sole purpose of acquiring the shares. The shares are granted upfront based on the five-day volume weighted average price and remain restricted and subject to risk of forfeiture until the end of the vesting/performance period while the loan remains outstanding, with any unvested/unexercised shares lapsing 49 months after the first test date.

Any dividends paid on the shares are applied (on a notional after-tax basis) towards repaying the loan. The shares generally vest over three years with 20% vesting after the first test date, 30% after the second test date and 50% vesting after the third test date, other than those issued to the CEO during FY15, of which 100% only vest after 36 months if the hurdles are met.

The base test date for the ESLS March 2018 grant is 1 March. The base test dates for the ESLS issues made from 1 July 2015 to 31 December 2017 were set as 1 July each year. For earlier issues the testing dates were based on the anniversary of the grant date. These grants provide a rolling benefit to senior executives over the three-year period in the absence of a short-term incentive.

The number/proportion of shares (granted prior to reporting date) that vest is based on the absolute Total Shareholder Return (TSR) over the period, with 50% vesting if a TSR of 5% (10% for pre- 1 July 2015 issues) Compound Annual Growth (CAGR) is achieved, rising to 100% vesting for achievement of a TSR CAGR of 10% (15% for pre- 1 July 2015 issues). If the hurdles are not met at the date of the initial test, the unvested shares are re-tested at the next test date. If any shares remain unvested after the third test date, they are re-tested six monthly for a further two years, at which point they will lapse if unvested. The Board has determined that the opportunity for re-testing of the absolute TSR hurdle is appropriate given the uncertain timing of product approvals. The Board took advice from KPMG-3dc on the appropriate TSR targets for the issues.

The Board considered performance measures other than TSR however concluded these were not appropriate. The Board will continue to consider whether an earnings or returns based measure is more appropriate for future grants. The Board considers that an absolute TSR target aligns management's reward (via the ESLS) with that of shareholders.

Hedging of equity awards

The Company prohibits KMP from entering into arrangements to protect the value of unvested equity awards. The prohibition includes entering into contracts to hedge their exposure to options or ESLS shares awarded as part of their remuneration package.

5. KMP REMUNERATION TABLES

The following table discloses KMP remuneration during the year ended 30 June 2018:

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS				TOTAL $		
	DIRECTORS' FEES $	SALARY $	ANNUAL LEAVE $	OTHER BENEFITS[1] $	SUPER-ANNUATION $	OTHER[2] $	OPTIONS $	LTI SHARES $	CANCELLED LTI SHARES[7] $		TOTAL EXCL. CANCELLED LTI SHARES $	PROPORTION RELATED TO PERFORMANCE %
Non-Executive Directors												
Mr R Corbett	250,000	-	-	15,000	23,750	-	-	-	-	288,750	288,750	-
Hon R Best	117,600	-	-	-	24,750	-	-	-	-	142,350	142,350	-
Mr P Blake	-	-	-	-	-	-	-	-	-	-	-	-
Mr F Condella	10,950	-	-	-	-	-	-	-	-	10,950	10,950	-
Ms N Dolan[3]	125,112	-	-	-	25,450	-	-	-	-	150,562	150,562	-
Mr B Mathieson[3]	112,500	-	-	-	10,688	-	-	-	-	123,188	123,188	-
Mr I Scholes	140,000	-	-	-	13,300	-	-	-	-	153,300	153,300	-
Mr P Hodges	120,950	-	-	-	-	-	-	-	-	120,950	120,950	-
Prof B Robinson	120,000	-	-	-	11,400	-	-	-	-	131,400	131,400	-
Executive Directors												
Mr S Richards	-	857,488	67,687	201,751[4]	20,049	21,998	124,522	1,215,530	-	2,509,025	2,509,025	53.4
Other KMP												
Mr N Freeman	-	510,659	42,307	-	23,429	9,159	-	277,735	-	863,289	863,289	32.2
Mr S Cross	-	484,531	40,799	-	25,199	13,260	25,191	364,159	342,210	1,295,349	953,139	56.5
Dr I Stancovski	-	483,237	19,654	-	-	(17,498)	-	332,056	279,816	1,097,265	817,449	55.8
Ms K Rintoul	-	378,204	32,459	-	20,049	7,027	539	247,037	246,829	932,144	685,315	53.0
Mr E Evans[5]	-	61,986	35,952	2,753	3,918	-	-	(317,709)[5]	-	(213,100)	(213,100)	n/a
Mr P Paltoglou	-	485,839	40,597	10,980	20,049	8,789	-	385,650	344,121	1,296,025	951,904	56.3
Ms L Pendlebury	-	251,004	20,916	-	20,049	4,528	-	140,598	142,683	579,778	437,095	48.9
Mr A Van Breugel[6]	-	146,216	11,439	-	12,514	3,718	-	35,093	177,279	386,259	208,980	55.0
Mr J Ross	-	632,805	6,510	22,710	11,626	-	26,225	317,163	309,676	1,326,715	1,017,039	49.2
Total	997,112	4,291,969	318,320	253,194	266,220	50,981	176,477	2,997,312	1,842,614	11,194,199	9,351,585	

1. Other benefits include car lease payments, rental allowances, medical related payments and serviced office facilities for the Chairman.
2. Other long-term benefits represent accruals for long service leave entitlements that may arise should the relevant key management personnel meet the eligibility requirements in the future.
3. Ms Dolan and Mr Mathieson's salaries have been adjusted in FY18 to reflect their involvement in the Audit and Risk committee. Ms Dolan replaced Mr Mathieson on this committee from 1 October 2016.
4. As Mr Richards relocated to the US during the year, he receives a living away from home allowance, relocation support and other typical ex-pat benefits such as car lease, rental allowances, medical benefits and return flights.
5. Mr Evans resigned 18 August 2017 and forfeited all non-vested LTI shares.
6. Mr Van Breugel ceased to be a KMP effective 31 December 2017.
7. Under the requirement of AASB2, the cancellation of the shares brought forward the future accounting expense which requires inclusion in this report. However, no KMP received a benefit from the cancellation of these shares.

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The following table discloses KMP remuneration during the year ended 30 June 2017:

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS				
	DIRECTORS' FEES $	SALARY $	ANNUAL LEAVE $	OTHER BENEFITS[1] $	SUPER-ANNUATION $	OTHER[2] $	OPTIONS[3] $	LTI SHARES $	TOTAL $	PROPORTION RELATED TO PERFORMANCE %
Non-Executive Directors										
Mr R Corbett	250,000	-	-	-	23,750	-	-	-	273,750	-
Hon R Best	117,600	-	-	-	24,750	-	-	-	142,350	-
Ms N Dolan[4]	72,424	-	-	-	30,108	-	-	-	102,532	-
Mr B Mathieson	130,000	-	-	-	12,350	-	-	-	142,350	-
Mr I Scholes	140,000	-	-	-	13,300	-	-	-	153,300	-
Mr P Hodges	120,000	-	-	-	-	-	-	-	120,000	-
Prof B Robinson	120,000	-	-	-	11,400	-	-	-	131,400	-
Executive Directors										
Mr S Richards	-	860,068	67,721	-	19,616	22,009	1,008,794	831,231	2,809,439	65.5
Other KMP										
Mr M Cansdale[5]	-	280,680	26,174	11,862	14,712	(52,913)	-	150,912	431,427	35.0
Mr S Cross[6]	-	570,599	58,413	48,569	29,380	13,000	180,605	334,727	1,235,293	41.7
Dr I Stancovski	-	441,853	37,436	-	-	12,167	-	280,607	772,063	36.3
Ms K Rintoul	-	371,928	31,514	-	19,616	6,697	59,774	205,736	695,265	38.2
Mr E Evans[7]	-	481,978	36,543	13,965	17,328	-	-	260,517	810,331	32.1
Mr P Paltoglou	-	491,413	39,415	11,133	19,616	8,179	-	368,811	938,567	39.3
Ms L Pendlebury	-	247,754	20,307	-	19,616	4,315	-	137,437	429,429	32.0
Mr A Van Breugel	-	256,075	22,211	-	34,156	7,219	-	76,630	396,291	19.3
Mr J Ross[8]	-	254,211	18,916	8,249	11,977	-	60,866	129,673	483,892	39.4
Mr N Freeman[9]	-	62,474	7,051	-	3,524	-	-	-	73,049	-
Total	950,024	4,319,033	365,701	93,778	305,199	20,673	1,310,039	2,776,281	10,140,728	

1. Other benefits include car lease payments, rental allowances and medical related payments. Mr Cross also received return flights to Australia and other typical expat benefits.
2. Other long-term benefits represent accruals for long service leave entitlements that may arise should the relevant key management personnel meet the eligibility requirements in the future.
3. Option values include the impact of the exercise price change made in July 2016 in accordance with ASX Listing Rule 6.22. The exercise price change occurred due to the rights issue announced in June 2016. The value of the exercise price change was as follows – Mr Richards $707,250, Mr Cross $109,950, Ms Rintoul $40,062 and Mr Ross $32,062. Refer also to Note 6 of this report for additional details.
4. Ms Dolan was appointed 21 September 2016.
5. Mr Cansdale resigned as Group CFO effective 17 March 2017 and hence ceased to be KMP from that date.
6. Mr Cross also received 600,000 RSUs from HPPI for his role as a director of HPPI. The resultant HPPI shares will be transferred to Mayne Pharma.
7. Mr Evans resigned 18 August 2017.
8. Mr Ross was considered to be KMP effective from 1 January 2017 and hence the remuneration disclosed above is for the period 1 January 2017 to 30 June 2017.
9. Mr Freeman commenced with the Group 22 May 2017.

6. VALUE OF EQUITY INTRUMENTS GRANTED TO KMP

Options awarded, vested, exercised and lapsed

The number and value of outstanding options granted to KMP is set out below:

	GRANT DATE	NUMBER HELD AT 1 JULY 2017	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2018	NUMBER VESTED AT 30 JUNE 2018	VALUE OF OPTIONS AT GRANT DATE $[1]	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2018									
Mr S Cross	25 Jan 13	800,000	-	800,000	-	-	-	172,960	-
Mr S Cross	21 Apr 14	1,000,000	-	-	-	1,000,000	500,000	391,710	25,191
Mr J Ross	1 May 14	1,000,000	-	-	-	1,000,000	500,000	380,420	26,225
		2,800,000	-	800,000	-	2,000,000	1,000,000	945,090	51,416

	GRANT DATE	NUMBER HELD AT 1 JULY 2016	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2017	NUMBER VESTED AT 30 JUNE 2017	VALUE OF OPTIONS AT GRANT DATE $[1]	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2017									
Mr S Richards	13 Feb 12	7,500,000	-	7,500,000	-	-	-	2,549,550	1,008,794
Mr S Cross	25 Jan 13	800,000	-	-	-	800,000	800,000	172,960	72,372
Mr S Cross	21 Apr 14	1,000,000	-	-	-	1,000,000	500,000	391,710	108,233
Ms K Rintoul	2 Jul 13	800,000	-	800,000	-	-	-	204,590	59,774
Mr J Ross	1 May 14	1,000,000	-	-	-	1,000,000	500,000	380,420	60,866[4]
		11,100,000	-	8,300,000	-	2,800,000	1,800,000	3,699,230	1,310,040

1. The value at grant date has been adjusted to include the value of modifications which occurred in prior periods.

No other KMP held options during FY18 or FY17.

No options were granted or modified during the period.

LTI Shares

As noted above, under the LTI program ('Executive Share Loan Scheme' or 'ESLS'), eligible KMP (and other select senior management) are invited to acquire shares in the Company funded by a non-recourse loan from the Group. Although the shares are acquired under the plan for legal and taxation

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purposes, Australian Accounting Standards require the shares be treated as options for accounting purposes. As a result, the amounts receivable from KMP in relation to these loans are not recognised in the financial statements.

The number of notional shares granted or cancelled to KMP under the ESLS during the current period is set out below:

	GRANT DATE	NUMBER OF SHARES ISSUED / (CANCELLED)	EXERCISE PRICE / LOAN VALUE $	EXPIRY DATE
Mr S Richards	7 Dec 2017	6,608,851	0.6169	31 July 2022
Mr S Cross	3 July 2017	1,297,861	1.1307	31 July 2022
Mr S Cross	28 Sep 2017	295,077	0.6631	31 July 2022
Mr S Cross	23 Mar 2018	2,102,110	0.7620	31 Mar 2023
Mr S Cross – shares cancelled	11 Aug 2016	(715,418)	2.0100	31 July 2021
Dr I Stancovski	3 July 2017	1,169,879	1.1307	31 July 2022
Dr I Stancovski	28 Sep 2017	332,474	0.6631	31 July 2022
Dr I Stancovski	23 Mar 2018	2,025,258	0.7620	31 Mar 2023
Dr I Stancovski – shares cancelled	11 Aug 2016	(584,979)	2.0100	31 July 2021
Ms K Rintoul	3 July 2017	1,031,965	1.1307	31 July 2022
Ms K Rintoul	28 Sep 2017	254,176	0.6631	31 July 2022
Ms K Rintoul	23 Mar 2018	1,672,400	0.7620	31 Mar 2023
Ms K Rintoul – shares cancelled	11 Aug 2016	(516,017)	2.0100	31 July 2021
Mr E Evans[1]	3 July 2017	992,470	1.1307	31 July 2022
Mr P Paltoglou	3 July 2017	1,278,871	1.1307	31 July 2022
Mr P Paltoglou	28 Sep 2017	314,989	0.6631	31 July 2022
Mr P Paltoglou	23 Mar 2018	2,091,695	0.7620	31 Mar 2023
Mr P Paltoglou – shares cancelled	11 Aug 2016	(719,413)	2.0100	31 July 2021
Ms L Pendlebury	3 July 2017	530,259	1.1307	31 July 2022
Ms L Pendlebury	28 Sep 2017	27,126	0.6631	31 July 2022
Ms L Pendlebury	23 Mar 2018	862,151	0.7620	31 Mar 2023
Ms L Pendlebury – shares cancelled	11 Aug 2016	(298,291)	2.0100	31 July 2021
Mr A Van Breugel[2]	3 July 2017	658,831	1.1307	31 July 2022
Mr A Van Breugel[2]	28 Sep 2017	33,703	0.6631	31 July 2022
Mr A Van Breugel – share cancelled	11 Aug 2016	(370,617)	2.0100	31 July 2021
Mr J Ross	3 July 2017	1,197,845	1.1307	31 July 2022
Mr J Ross	28 Sep 2017	442,778	0.6631	31 July 2022
Mr J Ross	23 Mar 2018	2,162,862	0.7620	31 Mar 2023
Mr J Ross – shares cancelled	11 Aug 2016	(498,004)	2.0100	31 July 2021
Mr J Ross– shares cancelled	25 Oct 2016	(186,779)	1.9139	31 July 2021
Mr N Freeman	3 July 2017	2,124,415	1.1307	31 July 2022
Mr N Freeman	23 Mar 2018	2,397,769	0.7620	31 Mar 2023

1. Mr Evans resigned 18 August 2017 and forfeited the above shares on leaving the Company.
2. Mr Van Breugel ceased to be a KMP effective 31 December 2017 and hence above table shows his grants and cancellation up to 31 December 2017.

There were no ESLS or SLS grants in July 2018.

The number of notional shares granted to KMP under the ESLS during the prior comparable period is set out below:

	GRANT DATE	NUMBER OF SHARES ISSUED	EXERCISE PRICE / LOAN VALUE $	EXPIRY DATE
Mr S Richards	6 Dec 2016	2,242,005	1.5760	31 July 2021
Mr S Cross	11 Aug 2016	715,418	2.0100	31 July 2021
Dr I Stancovski	11 Aug 2016	584,979	2.0100	31 July 2021
Ms K Rintoul	11 Aug 2016	516,017	2.0100	31 July 2021
Mr E Evans	11 Aug 2016	556,600	2.0100	31 July 2021
Mr P Paltoglou	11 Aug 2016	719,413	2.0100	31 July 2021
Ms L Pendlebury	11 Aug 2016	298,291	2.0100	31 July 2021
Mr A Van Breugel	11 Aug 2016	370,617	2.0100	31 July 2021
Mr J Ross	11 Aug 2016	498,004	2.0100	31 July 2021
Mr J Ross	25 Oct 2016	186,779	1.9139	31 July 2021
Mr M Cansdale	11 Aug 2016	676,119	2.0100	31 July 2021

Except for Mr Richards (who retained the above shares) and Mr Evans (who forfeited the above shares on leaving the Company), all the above 2016 granted LTI shares were cancelled with effect 31 December 2017.

7. OPTIONS AND SHARES GRANTED SUBSEQUENT TO REPORTING DATE

No options nor restricted shares were issued to KMP subsequent to report date.

8. SHARES ISSUED ON EXERCISE OF OPTIONS BY KMP

The number of shares issued to KMP on the exercise of options during the year ended 30 June 2018 was as follows.

	SHARES ISSUED NUMBER	PAID PER SHARE $	UNPAID PER SHARE $
30 June 2018			
Mr S Cross	800,000	0.2184	-
Total	800,000		-

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	SHARES ISSUED NUMBER	PAID PER SHARE $	UNPAID PER SHARE $
30 June 2017			
Mr S Richards	7,500,000	0.1492	-
Ms K Rintoul	300,000	0.3927	-
Ms K Rintoul	500,000	0.2984	-
Total	8,300,000		-

9. SHARES HELD BY KMP

Movements in shares

The movement during FY17 and FY18 in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP including their related parties at reporting date, is as follows:

	HELD AT 30 JUNE 2016 NUMBER	RECEIVED DURING THE YEAR ON EXERCISE OF OPTIONS AND / OR LTI SHARES GRANTED NUMBER	OTHER CHANGES DURING THE YEAR NUMBER	HELD AT 30 JUNE 2017 NUMBER	RECEIVED DURING THE YEAR ON EXERCISE OF OPTIONS AND / OR LTI SHARES GRANTED NUMBER	LTI SHARES CANCELLED DURING THE YEAR NUMBER	OTHER CHANGES DURING THE YEAR NUMBER	HELD AT 30 JUNE 2018 NUMBER
Directors								
Mr R Corbett	**6,510,542**	-	3,930,027	**10,440,569**	-	-	-	**10,440,569**
Mr S Richards	**9,967,392**	9,742,005	5,778,197	**25,487,594**	6,608,851	-	(10,883,195)	**21,213,250**
Hon R Best	**2,560,338**	-	(973,121)	**1,587,217**	-	-	-	**1,587,217**
Mr P Blake	**-**	-	-	**-**	-	-	-	**-**
Mr F Condella	-	-	-	-	-	-	-	-
Ms N Dolan	-	-	74,500	**74,500**	-	-	-	**74,500**
Mr B Mathieson	**57,143,080**	-	33,634,503	**90,777,583**	-	-	8,000,000	**98,777,583**
Mr I Scholes	**1,303,174**	-	855,462	**2,158,636**	-	-	-	**2,158,636**
Mr P Hodges	**6,839,667**	-	(100,113)	**6,739,554**	-	-	-	**6,739,554**
Prof B Robinson	**257,971**	-	376,924	**634,895**	-	-	-	**634,895**
	84,582,164	9,742,005	43,576,379	**137,900,548**	6,608,851	-	(2,883,195)	**141,626,204**
Other KMP								
Mr N Freeman	**-**	-	-	**-**	4,522,184	-	76,071	**4,598,255**
Mr S Cross	**1,457,153**	715,418	682,715	**2,855,286**	4,495,048	(715,418)	(800,000)	**5,834,916**
Dr I Stancovski	**1,664,792**	584,979	214,436	**2,464,207**	3,527,611	(584,979)	-	**5,406,839**
Ms K Rintoul	**666,533**	1,316,017	(800,000)	**1,182,550**	2,958,541	(516,017)	-	**3,625,074**
Mr E Evans	**974,997**	556,600	100,000	**1,631,597**	992,470	-	(2,429,068)	**194,999**
Mr P Paltoglou	**2,605,344**	719,413	1,581,359	**4,906,116**	3,685,555	(719,413)	(1,293,510)	**6,578,748**
Ms L Pendlebury	**811,767**	298,291	350,999	**1,461,057**	1,419,536	(298,291)	107,292	**2,689,594**
Mr A Van Breugel	**-**	370,617	-	**370,617**	1,635,511	(370,617)	-	**1,635,511**
Mr J Ross	**908,131**	684,783	100,003	**1,692,917**	3,803,485	(684,783)	-	**4,811,619**
	9,088,717	5,246,118	2,229,512	**16,564,347**	27,039,941	(3,889,518)	(4,339,215)	**35,375,555**
	93,670,881	14,988,123	45,805,891	**154,464,895**	33,648,792	(3,889,518)	(7,222,410)	**177,001,759**

10. EMPLOYMENT CONTRACTS

Remuneration and other key terms of employment for the CEO and other KMP are formalised in service agreements. The service agreements specify the components of remuneration, benefits, notice periods and termination provisions.

The table below provides details on the CEO's service agreement:

NAME	TERM OF AGREEMENT	BASE SALARY INCLUDING SUPERANNUATION[1]	NOTICE PERIOD	INCENTIVE ARRANGEMENTS	TERMINATION BENEFITS
Mr S Richards *Chief Executive Officer*	On-going commencing 13 February 2012	$900,000	12 months	Entitlement to participate in LTI share plan. The value of the LTI is based on 150% of fixed remuneration.	Nil if for serious misconduct. Otherwise, up to 12 months' pay in lieu of notice. If employment is terminated within six months of a change of control, entitled to a payment equal to 12 months' pay.

1. Base salary quoted is for a 12-month period and is current and is reviewed annually by the Remuneration and People Committee. Note as Mr Richards relocated to the US during the year, he also receives living away from home, relocation assistance and other typical expat benefits.

Other executive KMP are subject to ongoing service agreements with notice periods from 3 months to 6 months. Other KMP participate in the ESLS receiving an annual allocation of shares under the plan. ESLS participation is based on a LTI value of between 80% and 110% of fixed remuneration. These executives do not participate in the STI plan.

To align the executive KMP interests with shareholder interests, all executive KMP are required to build and hold a specified minimum shareholding in the Company over time.

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11. GROUP PERFORMANCE

In considering the Group's performance, the Board has regard to a broad range of factors primarily related to financial and operational performance, the scientific progress and commercialisation of the Company's projects, results of trials, relationship building with sales and marketing partners, research institutions, and collaborations.

The following table outlines key statistics reported by the Company over the last five years to 30 June 2018:

	2018	2017	2016	2015	2014
Total revenue ($000)	530,313	572,595	267,280	141,420	143,254
NPAT ($000) attributable to Mayne Pharma shareholders	(133,984)	88,562	37,355	7,759	21,290
Basic EPS (cents)	(9.16)	6.18	4.77	1.18	3.72
Share price (30 June)	$0.870	$1.085	$1.905	$0.985	$0.850
Dividends per share (cents)	-	-	-	-	-

As part of the Board's commitment to align remuneration with Company performance, employee performance is reviewed annually against agreed performance objectives set prior to the commencement of the financial year. The Company's performance review system involves employees completing a self-assessment template, as well as their manager completing an assessment document. These written assessments form the basis of a performance review discussion between each employee and their manager.

The Board (through the RPC) agrees objectives for the evaluation of the CEO. The performance of the CEO against the agreed objectives is reviewed by the Chairman on behalf of the Board. The performance of the other KMP and other senior executives is reviewed by the CEO and reported to, and discussed by, the Board. Performance reviews take place shortly after the end of the financial year.

As outlined in this report, the Company has implemented a broader based LTI program for senior management. This plan places a significant percentage of remuneration at risk and more closely aligns employee remuneration with the earnings growth of the Company.

The Company now has 156 senior members or 20% of staff participating in long term incentive schemes, either though previous option issues, or more recently through the share loan scheme, including 14 senior executives who have agreed to forgo STI entitlements. The Board considers this a strong indication of the alignment of the shareholders' and employees' interests.

This Directors' Report is signed in accordance with a resolution of the Directors.

Dated at Melbourne, Australia this 24th day of August 2018.



Mr Scott Richards
Managing Director and CEO

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Auditor's Independence Declaration to the Directors of Mayne Pharma Group Limited

As lead auditor for the audit of Mayne Pharma Group Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Mayne Pharma Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ashley Butler
Partner
Melbourne
24 August 2018

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CORPORATE GOVERNANCE WEBSITE

Important information relating to the Company's corporate governance policies and practices are set out on the Company's website at http://www.maynepharma.com/investor-relations/corporate-governance.

The Company has adopted the ASX Corporate Governance Council 3rd Edition Corporate Governance Principles and Recommendations. The recommendations allow companies to publish Corporate Governance information on their websites rather than include the information in the Annual Report.

The following documents are available on the Mayne Pharma website:

- Corporate Governance Statement;
- Board Charter;
- Audit & Risk Committee, Remuneration & People Committee, Nomination Committee and Science, Technology & Medical Committee Charters;
- Business Code of Conduct;
- Communications Policy;
- Continuous Disclosure Policy;
- Risk Management Framework;
- Workplace Gender Equality Agency Annual Compliance Report; and
- Securities Trading Policy.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	NOTE	CONSOLIDATED 2018 $'000	2017 $'000
Continuing operations			
Sale of goods		456,001	503,521
Services revenue		73,140	68,163
License fee revenue		-	53
Royalties revenue		1,172	858
Revenue	2	**530,313**	**572,595**
Cost of sales	6	(273,764)	(256,834)
Gross profit		**256,549**	**315,761**
Other income	4	2,691	33,241
Research and development expenses		(12,303)	(8,275)
Marketing and distribution expenses		(60,974)	(49,280)
Administration expenses and other expenses	6	(151,069)	(142,975)
Impairments	14	(184,374)	(20,213)
Finance expenses	6	(17,307)	(12,324)
Profit before income tax		**(166,787)**	**115,935**
Income tax credit / (expense)	7	32,530	(29,909)
Net profit from continuing operations after income tax		**(134,257)**	**86,026**
Attributable to:			
Equity holders of the Parent		(133,984)	88,567
Non-controlling interests		(273)	(2,541)
		(134,257)	**86,026**
Other comprehensive income/(loss) for the period, net of tax			
Items that may be reclassified to profit or loss in future periods			
Unrealised gain / (loss) on cash flow hedges		5,332	2,279
Income tax effect		-	-
Exchange differences on translation		36,287	(19,740)
Income tax effect		-	-
Items that will not be reclassified to profit or loss in future periods			
Exchange differences on translation		380	(323)
Income tax effect			
Total comprehensive income for the period		**(92,258)**	**68,242**
Attributable to:			
Equity holders of the Parent		(92,365)	71,106
Non-controlling interests		107	(2,864)
		(92,258)	**68,242**
Basic earnings per share	8	(9.16) cents	6.18 cents
Diluted earnings per share	8	(9.16) cents	6.06 cents

This statement is to be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTE	CONSOLIDATED 2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	22	87,312	63,027
Trade and other receivables	9	252,715	225,833
Inventories	10	82,156	106,394
Income tax receivable		22,206	7,972
Other financial assets	11	15,428	8,025
Other current assets	12	20,950	10,869
Total current assets		**480,767**	**422,120**
Non-current assets			
Property, plant and equipment	13	230,051	189,272
Deferred tax assets	7	65,164	61,204
Intangible assets and goodwill	14	1,054,526	1,235,441
Total non-current assets		**1,349,741**	**1,485,917**
Total assets		**1,830,508**	**1,908,037**
Current liabilities			
Trade and other payables	15	152,561	147,577
Interest-bearing loans and borrowings	16	58	13,124
Income tax payable		-	-
Other financial liabilities	17	12,477	24,050
Provisions	18	14,801	8,261
Total current liabilities		**179,897**	**193,012**
Non-current liabilities			
Interest-bearing loans and borrowings	16	374,132	327,122
Other financial liabilities	17	5,350	16,905
Deferred tax liabilities	7	34,030	56,912
Provisions	18	1,941	1,662
Total non-current liabilities		**415,453**	**402,601**
Total liabilities		**595,351**	**595,613**
Net assets		**1,235,157**	**1,312,424**
Equity			
Contributed equity	19	1,131,761	1,130,404
Reserves	20	71,178	23,337
Retained earnings	21	23,525	150,097
Equity attributable to equity holders of the Parent		**1,226,464**	**1,303,838**
Non-controlling interests		8,693	8,586
Total equity		**1,235,157**	**1,312,424**

This statement is to be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	NOTE	CONSOLIDATED 2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		646,011	560,491
Payments to suppliers and employees		(485,644)	(518,700)
Interest received		112	286
Interest paid		(15,176)	(10,313)
Tax paid		(10,731)	(57,578)
Tax received		2,764	-
Net operating cash flows before research and non-capitalised development expenditure, set-up and transaction costs		**137,336**	**(25,814)**
Payments for research and non-capitalised development expenditure		(10,704)	(7,165)
Net patent litigation gains / (costs)		(972)	22,362
Teva acquisition set-up and transaction costs		-	(3,097)
Restructuring costs paid		(3,489)	-
Drug pricing investigations and related litigation costs		(672)	(1,523)
Net cash flows from operating activities	22	**121,498**	**(15,237)**
Cash flows from investing activities			
Payments for property, plant and equipment		(54,181)	(104,416)
Payments for intangible assets		(7,371)	(951,704)
Payments for capitalised development costs		(32,785)	(27,802)
Investment in subsidiary		(108)	-
Acquisition of HPPI warrants		(486)	-
Earn-out and deferred settlement payments		(23,417)	(13,875)
Net cash flows used in investing activities		**(118,348)**	**(1,097,797)**
Cash flows from financing activities			
Proceeds from issues of shares		1,526	892,138
Transaction costs on issue of shares		-	(28,357)
Equity contributions from non-controlling interests		(65)	806
Payment of employee withholding taxes relating to settlement of Restricted Stock Units by HPPI (shares withheld)		-	(4,841)
Repayment of borrowings		(118)	(463)
Proceeds from borrowings (net of fees)		18,835	270,382
Net cash flows from financing activities		**20,178**	**1,129,665**
Net increase / (decrease) in cash and cash equivalents		**23,328**	**16,631**
Cash and cash equivalents at the beginning of the period		63,027	47,481
Effect of exchange rate fluctuations on cash held		957	(1,085)
Cash at the end of the period	**22**	**87,312**	**63,027**

This statement is to be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	CONTRIBUTED EQUITY $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	OTHER RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON-CONTROLLING INTERESTS $'000	TOTAL EQUITY $'000
Balance at 1 July 2017	**1,130,404**	**14,890**	**11,052**	**1,415**	**(4,020)**	**150,097**	**1,303,838**	**8,586**	**1,312,424**
Profit/(loss) for the period	-	-	-		-	(133,984)	(133,984)	(273)	(134,257)
Other comprehensive income									
Cash flow hedge	-	-	-	5,332	-	-	5,332	-	5,332
Foreign exchange differences	-	-	36,287	-	-	-	36,287	380	36,667
Total comprehensive income for the period	**-**	**-**	**36,287**	**5,332**	**-**	**(133,984)**	**(92,365)**	**107**	**(92,258)**
Transactions with owners in their capacity as owners									
Shares issued	1,529	-	-	-	-	-	1,529	-	1,529
Share issue costs (net of tax)	(2)	-	-	-	-	-	(2)	-	(2)
Change equity investment in subsidiary	-	-	-	-	299	-	299	-	299
Tax effect of employee share options	(1,324)		-	-		-	(1,324)	-	(1,324)
Share-based payments	-	14,490	-	-	-	-	14,490	-	14,490
Share options exercised	1,155	(1,155)	-	-	-	-	-	-	-
Transfer to retained earnings – lapsed and cancelled employee LTI shares	-	(7,412)	-	-	-	7,412	-	-	-
Balance at 30 June 2018	**1,131,761**	**20,813**	**47,339**	**6,747**	**(3,721)**	**23,525**	**1,226,464**	**8,693**	**1,235,157**
Balance at 1 July 2016	**263,161**	**7,950**	**30,792**	**(864)**	**1,180**	**61,530**	**363,749**	**12,472**	**376,221**
Profit/(loss) for the period	-	-	-	-	-	88,567	88,567	(2,541)	86,026
Other comprehensive income									
Cash flow hedge	-	-	-	2,279	-	-	2,279	-	2,279
Foreign exchange differences	-	-	(19,740)	-	-	-	(19,740)	(323)	(20,063)
Total comprehensive income for the period	**-**	**-**	**(19,740)**	**2,279**	**-**	**88,567**	**71,106**	**(2,864)**	**68,242**
Transactions with owners in their capacity as owners									
Shares issued	892,138	-	-	-	-	-	892,138	-	892,138
Share issue costs (net of tax)	(28,357)	-	-	-	-	-	(28,357)	-	(28,357)
Change equity investment in subsidiary	-	-	-	-	(2,513)	-	(2,513)	326	(2,187)
Equity contributions by non-controlling interests	-	-	-	-	-	-	-	806	806
Payment of employee withholding taxes relating to settlement of Restricted Stock Units for HPPI	-	-	-	-	(2,687)	-	(2,687)	(2,154)	(4,841)
Tax effect of employee share options	(797)	-	-	-	-	-	(797)	-	(797)
Share-based payments	-	11,199	-	-	-	-	11,199	-	11,199
Share options exercised	4,259	(4,259)	-	-	-	-	-	-	-
Balance at 30 June 2017	**1,130,404**	**14,890**	**11,052**	**1,415**	**(4,020)**	**150,097**	**1,303,838**	**8,586**	**1,312,424**

This statement is to be read in conjunction with the accompanying notes.

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For the year ended 30 June 2018

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NOTE 1 – ABOUT THIS REPORT

Mayne Pharma Group Limited is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The financial report for the year ended 30 June 2018 was authorised for issue by the Directors on 24 August 2018.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

A. Basis of preparation

These financial statements are a general purpose financial report which has been prepared for a "for-profit" enterprise and in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for certain financial instruments which have been measured at the fair value.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars and rounded to the nearest thousand dollars ($'000) unless otherwise stated.

B. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses if it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

C. Foreign currency

The Group's consolidated financial statements are presented in Australian dollars, which is also the Parent's functional currency. The Group determines the functional currency for each entity and items included in the financial statements of each entity are measured using that functional currency. The functional currency for the US subsidiaries is US dollars.

During the prior comparable period, a subsidiary, Mayne Pharma LLC, changed its functional currency from AUD to USD. The change of functional currency was due to the settlement of the Teva portfolio acquisition. After the Teva acquisition, the predominant revenues and expenses of Mayne Pharma LLC are denominated in USD.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in equity though Other Comprehensive Income. On disposal of a foreign operation, the component of equity relating to that foreign operation is reclassified to profit or loss as part of the gain or loss on sale.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss except monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

In substance, the Group's net investment in a foreign operation includes loans advanced by the parent entity to the foreign operation where settlement of which is neither planned nor likely to occur within the foreseeable future. Exchange differences arising on such monetary items that form part of a reporting entity's net investment in a foreign operation are recognised in profit or loss in the separate financial statements of the reporting entity. In the Group's financial statements which include the foreign operation and the reporting entity, such exchange differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

D. Other accounting policies

Significant accounting policies that outline the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the notes to the financial statements.

E. Key judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates these judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases these judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. Material judgements and estimates are found in the following notes:

Note	Significant judgements and estimates
• Note 2 - Reporting Segment information	Revenue recognition
• Note 7 - Income tax	Recognition of deferred tax assets and liabilities
• Note 10 - Inventories	Obsolescence and net realisable value assessment
• Note 14 - Intangible assets	Impairment reviews and assessment of useful lives
• Note 15 - Trade and Other Payables	Customer rebates and discounts
• Note 17 - Other Financial Liabilities	Fair value of liabilities
• Note 18 - Provisions	Best estimates of expenditure to be settled
• Note 26 - Share-Based Payments	Fair value of equity instruments

F. Significant changes in the current reporting period

Mayne Pharma, in the prior year, early adopted AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions AASB 2 which would otherwise be effective from 1 Jan 2018 whereby, as an exception to the requirements in paragraph 34 of IFRS 2, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature. Key to this is that this amendment applies to a narrow situation where the net settlement arrangement is designed to meet an entity's obligation, under tax laws or regulations. Paragraph 29 of IFRS 2 is applied to account for the withholding of shares to fund the payment for WHT. The payment made will be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld. This has been applied to settlement, by HPPI, of RSUs during the period which required the deduction of employee withholding of tax from the settlement.

There were no changes in accounting policy during the year ended 30 June 2018, nor did the introduction of new accounting standards lead to any change in measurement or disclosure in these financial statements. See Note 33 for details on new accounting standards introduced this financial year.

G. Reclassification of comparatives

Where required, items in the 2017 comparative period have been reclassified to reflect the current presentation and enable better comparison between periods.

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NOTE 2 – REPORTING SEGMENTS

A reporting segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the reporting segment and assess its performance; and
- for which discrete financial information is available.

The Group is organised into reporting segments which are based on products and services delivered and geographical markets.

Reporting segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, a reporting segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

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

The reporting segments are identified by management based on the nature of revenue flows and responsibility for those revenues. Discrete financial information about each of these reporting segments is reported to the chief operating decision maker on at least a monthly basis.

The Consolidated Entity operates in four reporting segments being, Generic Products (GPD), Specialty Brands (SBD), Metrics Contract Services (MCS), and Mayne Pharma International (MPI).

GPD

GPD's revenue and gross profit are derived principally from the manufacture and distribution of generic pharmaceutical products in the US.

MCS

MCS' revenue and gross profit are derived from providing contract pharmaceutical development and manufacturing services to third-party customers principally in the US.

SBD

SBD's revenues and gross profit are derived principally from the marketing and distribution of specialty branded pharmaceutical products in the US.

MPI

MPI's revenues and gross profit are derived principally from the Australian manufacture and sale of branded and generic pharmaceutical products globally (ex-US) and provision of contract manufacturing services to third party customers within Australia.

The Consolidated Entity reports the following information on the operations of its identified reporting segments:

	GENERIC PRODUCTS $'000	METRICS CONTRACT SERVICES $'000	SPECIALTY BRANDS $'000	MPI $'000	TOTAL $'000
Year ended 30 June 2018					
Sale of goods	385,704	-	44,683	25,614	456,001
Services revenue	-	63,082		10,058	73,140
Royalty revenue	-	-	-	1,172	1,172
Revenue	385,704	63,082	44,683	36,844	530,313
Cost of sales	(208,308)	(29,411)	(7,151)	(28,894)	(273,764)
Gross profit	177,396	33,671	37,532	7,950	256,549
Other income					2,691
Amortisation of intangible assets					(70,200)
Asset impairments					(184,374)
Other expenses (refer Statement Profit or Loss and Other Comprehensive Income)					(171,453)
(Loss) / Profit before income tax					(166,787)
Income tax expense					32,530
Net (Loss) / Profit for the period					(134,257)

The combined revenue from the largest customer from each reporting segment was $168.1m for the year ended 30 June 2018.

Approximately 53% of the Group's 2018 revenue (2017: 59%) was derived from the three largest customers which is not unusual for operations in the US pharmaceutical market where the majority of branded and generic sales are made to a small number of key wholesale and retail organisations. These three customers trade with both the GPD and SBD segments.

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	GENERIC PRODUCTS $'000	METRICS CONTRACT SERVICES $'000	SPECIALTY BRANDS $'000	MPI $'000	TOTAL $'000
Year ended 30 June 2017					
Sale of goods	418,650	-	61,862	23,009	503,521
Services revenue	-	57,815	-	10,348	68,163
License fee revenue	-	-	-	53	53
Royalty revenue	-	-	-	858	858
Revenue	418,650	57,815	61,862	34,268	572,595
Cost of sales	(200,372)	(25,733)	(3,292)	(27,437)	(256,834)
Gross profit	218,278	32,082	58,570	6,831	315,761
Other income					33,241
Amortisation of intangible assets					(67,154)
Fair value movement in earn-out liability					517
Other expenses (refer Statement Profit or Loss and Other Comprehensive Income)					(166,430)
Profit before income tax					115,935
Income tax expense					(29,909)
Net Profit for the period					86,026

Geographical information

Revenue from external customers	2018 $'000	2017 $'000
Australia	28,013	26,224
United States	493,470	538,327
Korea	3,175	3,397
Other	5,655	4,647
Total external revenue	530,313	572,595

Non-current assets	2018 $'000	2017 $'000
Australia	132,322	124,436
United States	1,152,255	1,300,277
Total non-current assets	1,284,577	1,424,713

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

Product information

Revenue by product group/service	2018 $'000	2017 $'000
Third party contract services and manufacturing	73,140	68,163
Generic and branded products	456,001	503,574
Other revenue	1,172	858
Total external revenue	530,313	572,595

Revenue recognition and measurement

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer or wholesalers.

Deductions from revenue

Consistent with pharmaceutical industry practices, Mayne Pharma's gross sales are subject to various deductions which are primarily composed of rebates and discounts to retail customers, government agencies, wholesalers, health insurance companies and managed healthcare organisations. These deductions represent estimates of the related obligations, requiring use of judgement when estimating the effect of these sales deductions on gross sales for a reporting period. These adjustments are deducted from gross sales to arrive at net sales.

The following summarizes the nature of some of these deductions and how the deductions are estimated. After recording these, net sales represent the Group's best estimate of the cash that it expects to ultimately collect. The US market has the most complex arrangements related to revenue deductions.

US specific healthcare plans and program rebates

The United States Medicaid Drug Rebate Program is a partnership between Centers for Medicare and Medicaid Services (CMS), State Medicaid Agencies, and participating drug Manufacturers that helps to offset the Federal and State costs of most outpatient drugs dispensed to Medicaid patients. Calculating the rebates to be paid related to this program involves interpreting relevant regulations, which are subject to challenge or change in interpretative guidance by government authorities. Accruals for estimating Medicaid rebates are calculated using a combination of historical experience, product and population growth, product pricing and the mix of contracts and specific terms in the individual State agreements. The United States Federal Medicare Program offers assistance to Medicare eligible recipients by funding healthcare benefits to individuals aged 65 or older and those with certain disabilities, providing prescription drug benefits under Part D section of the program. This Part D benefit is provided and administered through private prescription drug plans. Accruals for estimating Medicare Part D rebates are calculated based on the terms of individual plan agreements, product sales and population growth, product pricing and the mix of contracts. We offer rebates to key managed healthcare and private plans to sustain and increase sales of our products. These programs provide a rebate after the plans have demonstrated they have met all terms and conditions set forth in their contract with the Group. These rebates are estimated based on the terms of individual agreements, historical

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experience, product pricing, and projected product growth rates. These accruals are adjusted based on established processes and experiences from filing data with individual states and plans. There is often a time lag of several months between the Group recording the revenue deductions and the final accounting for them.

The Group offers rebates to key managed healthcare and private plans to sustain and increase sales of products. These programs provide a rebate after the plans have demonstrated they have met all terms and conditions set forth in the contracts with the Group. These rebates are estimated based on the terms of individual agreements, historical experience and product pricing.

These provisions are adjusted based on established processes and experiences from filing data with individual states and plans. There is often a time lag of several months between the Group recording the revenue deductions and the final accounting for them.

Non-healthcare plans and program charge-backs, rebates, returns and other deductions

The Group offers rebates to purchasing organisations and other direct and indirect customers to sustain and increase market share for products. Since rebates are contractually agreed upon, the related provisions are estimated based on the terms of the individual agreements, historical experience, and projected product growth rates.

Charge-backs occur where the Group has arrangements with indirect customers to sell products at prices that are lower than the price charged to wholesalers. A charge-back represents the difference between the invoice price to the wholesaler and the indirect customer's contract price. The Group accounts for vendor charge-backs by reducing revenue for the estimate of charge-backs attributable to a sales transaction. Provisions for estimated charge-backs are calculated using a combination of factors such as historical experience, product growth rates, payments, product pricing, level of inventory in the distribution channel and the terms of individual agreements.

When a product is sold providing a customer the right to return, the Group records a provision for estimated sales returns based on sales return policy and historical return rates. Other factors considered include actual product recalls, expected marketplace changes, the remaining shelf life of the product, and the expected entry of generic products. No value for returned inventory is recognised as all returned inventory is destroyed.

The Group enters distribution service agreements with major wholesalers, which discourage the wholesalers from purchasing product greater than current customer demand. Where possible, the Group adjusts shipping patterns for products to maintain wholesalers' inventory levels consistent with underlying patient demand.

The Group offers cash discounts to customers to encourage prompt payment. Cash discounts are estimated and accrued at the time of invoicing and are deducted from revenue. Other sales discounts, such as co-pay discount cards, are offered in some markets. The estimated amounts of these discounts are recorded at the time of sale and are estimated utilizing historical experience and the specific terms for each program. If a discount for a probable future transaction is offered as part of a sales transaction, then an appropriate portion of revenue is deferred to cover this estimated obligation.

The provisions for revenue deductions are adjusted periodically to reflect actual experience. To evaluate the adequacy of provision balances, the Group uses internal and external estimates of the inventory in transit, the level of inventory in the distribution and retail channels, actual claims data received and the time lag for processing rebate claims. External data sources include reports from wholesalers.

Profit-sharing revenue represents the Group's share of the net profit from the sale of generic pharmaceutical products based on agreements with distribution partners. Amounts are based on calculated profits net of cost of goods sold, distribution expenses, chargebacks, returns and related accruals as reported by the distribution partners. Product return allowances are calculated for products that may be returned due to expiration dates or recalls. The Group and its distribution partners do not expect any significant product returns that are not adequately covered by the reserve amounts calculated and recorded by the distribution partners.

Services revenue

Services revenue relates to manufacturing, development and analysis for third parties. Revenue is recognised when the work is complete and the work is billed or billable to the client.

Royalties revenue

Royalties arising from the manufacturing rights are recognised when earned in accordance with the substance of the agreement.

Research and development income

Research and development income is recognised when its recoverability can be regarded as assured when the specific milestones of the projects are met.

License fee revenue

Some of the Group's revenues are generated from licensing agreements under which third parties have been granted rights to products and technologies. Consideration received, or expected to be received, that relates to the sale or out licensing of technologies or technological expertise is recognised in profit or loss as of the effective date of the agreement if all rights relating to the technologies and all obligations resulting from them have been relinquished under the contract terms. However, if rights to the technologies continue to exist or obligations resulting from them have yet to be fulfilled, the consideration received is deferred accordingly. Any consideration deferred is recorded as other liabilities and recognised in profit or loss over the estimated performance period stipulated in the agreement.

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NOTE 3 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash, short-term deposits, receivables, payables, bank loans and interest rate swaps.

The Group manages its exposure to key financial risks, including credit risk, interest rate risk, currency risk and liquidity risk in accordance with the Group's financial risk management framework. The objective of the framework is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Risk exposures and responses

Interest rate risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. During the year the Group's borrowings at variable rates were denoted in US dollars. At reporting date, approximately 54% of the Group's borrowings were swapped to fixed interest.

As at the end of the reporting period, the Group had the following variable rate borrowings outstanding:

	2018 $'000	2017 $'000
Variable Interest-bearing loans and borrowings	378,020	344,733
Less Face value of interest rate swaps	(202,511)	(169,139)
Net variable interest rate exposure	175,509	175,594

The Group has partially hedged the USD interest rate exposure by entering into interest rate swap contracts. At 30 June 2018 the interest swaps had a face value of US$150m (2017: US$130m).

Interest rate swaps with a face value of US$126.35m mature in June 2021 with the remaining interest rate swaps contracts (US$23.65m) maturing in June 2020.

The cash flow hedges are considered highly effective.

The variable interest rate risk on borrowings is partially off-set by the variable interest rate risk of cash at bank.

	2018 $'000	2017 $'000
Cash at bank and on hand	87,312	63,027

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. At reporting date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, net profit and equity would have been affected as follows:

	NET PROFIT/(LOSS)		EQUITY	
		HIGHER/(LOWER)		HIGHER/(LOWER)
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
US interest rates +0.5% (50 basis points)	(491)	(801)	-	-
AUD interest rates +0.5% (50 basis points)	45	35	-	-

The movements are due to higher/lower interest expense on borrowings less/plus lower/higher interest revenue from cash balances. Possible movements in interest rates were determined based on the current observable market environment.

Foreign currency risk

The Group has significant transactional currency exposures arising from sales and purchases in currencies other than the functional currency of the parent entity. Approximately 94% of the Group's revenues and 79% of the Group's costs are denominated in currencies other than the functional currency of the parent entity.

It is the Group's general policy to enter into simple Forward Exchange Contracts or Participating Forward Exchange Contracts over a set percentage of the forecast net receipts of US dollars. The percentages used vary depending on the length of the forecast period (0-3 months and 4-6 months). The Group has not applied the hedge accounting rules and no mark-to-market valuation difference for the contracts has been recognised in the Statement of Profit or Loss at 30 June 2018 as it was not material (2017: nil).

From time to time, the Company enters into FX contracts to manage the FX exposure of the Company relating to loans advanced to US subsidiaries denoted in USD. No FX contracts were outstanding at reporting date relating to intra-group loans.

The Group also holds assets and liabilities in US dollars (USD), British pounds (GBP), Japanese yen (JPY), Canadian dollars (CAD) and Euro (EUR). The existence of both assets and liabilities denominated in USD provides a limited natural hedge against adverse currency movements for USD denoted exposures.

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At balance date the Group's only significant foreign exchange exposure was to US dollar monetary assets and US dollar monetary liabilities as shown in the table below:

	A$'000 30 JUNE 2018	A$'000 30 JUNE 2017
Cash at bank	78,277	56,011
Other financial assets	15,428	8,025
Trade receivables	247,029	227,744
Trade and other payables	(145,313)	(144,482)
Other financial liabilities	(7,923)	(28,321)
Interest-bearing borrowings	(374,190)	(340,246)
Net exposure	(186,692)	(221,269)

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	NET PROFIT/(LOSS)		EQUITY	
	HIGHER/(LOWER)			HIGHER/(LOWER)
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
AUD/USD +5%	(773)	(1,531)	-	-
AUD/USD -5%	847	1,692	-	-

The movements are due to foreign currency gains or losses as a result of changes in the balances of cash, borrowings, and the net of receivables and payables.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the financial assets.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group holds limited credit insurance in the US which would only apply for small customers in the US.

Management of credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, experience and industry reputation.

Approximately 53% of the Group's 2018 revenue was derived from the three largest customers which is not unusual for operations in the US pharmaceutical market where the majority of both branded and generic sales are made to a small number of key wholesale and retail organisations. The Group had three customers who comprised approximately 79% of the total trade receivables balance at reporting date. These customers were operating within agreed trading terms at the end of the 2018 period.

The Group believes that there is minimal credit risk on the above key customer concentration as there has never been any default on their obligations and they are major US pharmaceutical wholesale/retail organisations. The Group does not hold collateral as security.

The collectability of debts is assessed on an ongoing basis. A provision for impairment loss is raised when there is objective evidence that the Group will not be able to collect the debt. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Bad debts are written off when identified. Receivables are monitored on an ongoing basis and the incidence of bad debt write off has been extremely low.

Financial assets included on the Consolidated Statement of Financial Position that potentially subject the Group to concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Group minimises this concentration of risk by placing its cash and cash equivalents with financial institutions that maintain superior independent credit ratings to limit the degree of credit exposure. The maximum exposures to credit risk as at 30 June 2018 in relation to each class of recognised financial assets is the carrying amount of those assets, as indicated in the Consolidated Statement of Financial Position.

Credit quality of financial assets:

	2018 $'000	2017 $'000
Cash and cash equivalents[1]	87,312	63,027
Trade and other receivables[2]	252,715	225,833
	340,027	288,860

Notes: 1. Minimum of S&P AA rated counterparty with which deposits are held.
2. At period end 2018 trade receivables were $251,670,000, with 97% of trade receivables within trading terms.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility using bank loans and cash and short-term deposits sufficient to meet the Group's current cash requirements.

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The Board manages liquidity risk by monitoring, monthly, the total cash inflows and outflows expected over the budget and forecast period.

The following table discloses the remaining contractual maturities for the Group's liquid financial assets and liabilities based on undiscounted cash flows. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

	LESS THAN 6 MONTHS $'000	6 TO 12 MONTHS $'000	1 TO 5 YEARS $'000	GREATER THAN 5 YEARS $'000	TOTAL $'000
30 June 2018					
Liquid financial assets					
Cash and cash equivalents	87,312	-	-	-	87,312
Trade and other receivables	252,715	-	-	-	252,715
	340,027	-	-	-	340,027
Financial liabilities					
Trade and other payables	(152,561)	-	-	-	(152,561)
Interest-bearing loans and borrowings	(29)	(29)	(378,042)	-	(378,100)
Other financial liabilities	(798)	(11,678)	(6,335)	(298)	(19,109)
	(153,388)	(11,707)	(384,377)	(298)	(549,770)
Net inflow/(outflow)	186,639	(11,707)	(384,377)	(298)	(209,743)

	LESS THAN 6 MONTHS $'000	6 TO 12 MONTHS $'000	1 TO 5 YEARS $'000	GREATER THAN 5 YEARS $'000	TOTAL $'000
30 June 2017					
Liquid financial assets					
Cash and cash equivalents	63,027	-	-	-	63,027
Trade and other receivables	232,716	-	-	-	232,716
	295,743	-	-	-	295,743
Financial liabilities					
Trade and other payables	(154,460)	-	-	-	(154,460)
Interest-bearing loans and borrowings	(13,124)	(83)	(331,722)	-	(344,929)
Other financial liabilities	(21,513)	(2,760)	(17,946)	(358)	(42,577)
	(189,097)	(2,843)	(349,668)	(358)	(541,966)
Net inflow/(outflow)	106,646	(2,843)	(349,668)	(358)	(246,223)

The Group has undrawn loan facilities of US$135m plus the undrawn working capital facilities of A$10m and US$5m available at reporting date. Refer Note 16.

NOTE 4 – OTHER INCOME

	2018 $'000	2017 $'000
Interest received	112	286
Rental from excess office space	192	188
Litigation settlement receipt	-	26,175
Gain on remeasurement of HPPI warrants (refer Note 5)	1,622	5,307
Other	765	1,285
	2,691	33,241

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest revenue over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Lease revenue

Rental income arising from the operating lease on a building at the Salisbury manufacturing site is accounted for on a straight-line basis over the lease term and included in other income due to its operating nature.

NOTE 5 – FAIR VALUE MEASUREMENT

Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their economic best interest.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for fair value measurement.

External valuers are involved for valuation of significant assets and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the significant inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

The Group's external valuers provide the valuation results. The results and underlying assumptions are discussed with the Audit & Risk Committee and/or the Group's independent auditors.

For fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	CARRYING AMOUNT		FAIR VALUE	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Assets				
Warrants (options) - HPPI	8,316	6,208	8,316	6,208
Mark to market valuation - interest rate swap contracts	6,747	1,415	6,747	1,415
Liabilities				
Earn-out liability - various other products/distribution rights	2,358	5,739	2,358	5,739
Interest bearing syndicated loan	374,110	340,050	378,020	344,733

Cash and short-term deposits approximate their carrying amounts largely due to the short-term maturities of these instruments.

Warrants represent options to purchase shares in HPPI. A summary of the number of warrants and exercise prices are included in Note 11. The warrants have been recognised at fair value using the Black-Scholes method. Key inputs in determining the fair value of the warrants were the share price and the share price volatility. The share price volatility used in the valuation was 65% (2017: 51%) and was based on the Nasdaq Bio-tech index over 5 years. A change in the share price volatility to 75% would increase the warrants value by approximately 7% in US dollar terms.

The earn-out liabilities payable utilises present value calculation techniques that are not based on observable market data. The key inputs are forecast sales. Based on current data and normal market variations, no reasonable possible change in inputs is expected to have a material impact on earn-out liabilities.

Fair values of the Group's interest-bearing borrowings and loans are determined by using discount cash flow (DCF) method using the discount rate applying at the end of the reporting period. The Group's own non-performance risk at reporting date was assessed as insignificant.

Assets and liabilities measured at fair value

As at 30 June 2018, the Group held the following financial instruments carried at fair value in the Statement of Financial Position:

	LEVEL 2		LEVEL 3	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Financial Assets				
Warrants (options)	-	-	8,316	6,208
Mark to market valuation - interest rate swap contracts	6,747	1,415	-	-
Financial Liabilities				
Earn-out liabilities – various other products / distribution rights	-	-	2,358	5,739

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Reconciliation of fair value measurements of Level 3 financial instruments

The Group carries earn-out liabilities classified as Level 3 within the fair value hierarchy.

A reconciliation of the beginning and closing balances including movements is summarised below:

	2018 $'000 WARRANTS	2017 $'000 WARRANTS	2018 $'000 EARN-OUTS	2017 $'000 EARN-OUTS
Opening balance	6,208	2,918	5,739	15,400
Additions recognised for acquisitions made during current year	486	-	-	-
Fair value movement	1,622	5,307	485	(818)
Warrants exercised	-	(2,017)	-	-
Amounts settled	-	-	(4,001)	(8,511)
Restatement of foreign currency balances	-	-	135	(332)
Closing Balance	8,316	6,208	2,358	5,739

NOTE 6 – EXPENSES

	2018 $'000	2017 $'000
Finance costs		
Interest expense – loan	12,610	7,982
Unused line fees	1,800	2,295
Amortisation of borrowing costs	1,355	1,204
Interest expense – finance leases	60	36
Change in fair value attributable to the unwinding of the discounting of the earn-out liabilities[1]	1,482	807
	17,307	12,324
Depreciation[2]	9,683	6,514
Cost of sales include the following:		
Inventory write offs	18,185	9,581
Inventory provision for obsolescence and net realisable value adjustments	9,499	9,270
Onerous supply contracts	3,097	-
Employee benefits expense[3]		
Wages and salaries	102,883	83,659
Superannuation expense	4,448	4,005
Other employee benefits expense	9,954	7,982
Share-based payments (refer Note 26) (includes cancelled shares as noted below)	14,490	11,199
Total employee benefits	131,775	106,845
Administration and other expenses include the following:		
Drug pricing investigations and related litigation costs	672	1,523
Share-based payments additional expense relating to option exercise price change re rights issue	-	2,461
Share-based payments expense for cancelled shares	7,412	-
Share-based payments expense (excludes amounts relating to cancelled shares and expense relating to the option exercise price change re rights issue as above)	7,078	8,738
Restructuring expenses	5,834	-
Acquisition costs	-	3,097
Foreign exchange losses	220	3,737
Amortisation of intangible assets	70,200	67,154
Movement in undiscounted fair value of earn-out liabilities[4]	(1,808)	(1,324)
All other administration and other expenses	61,461	57,589
Total Administration and other expenses	151,069	142,975

Notes:
1. The non-cash unwinding of the discount relates to all earn-out liabilities.
2. Depreciation expense is included in cost of sales ($7,507,000) and various expense categories ($2,176,000).
3. Employee benefit expense is included in various expense categories and cost of sales.
4. The movement in the undiscounted fair value of earn-out liabilities and deferred settlement liabilities of $1,808,000 (2017: $1,324,000) was a non-cash (credit)/charge relating to re-assessment of the underlying assumptions for various earn-out and deferred settlement liabilities.

Acquisition costs

In the prior period $3,097,000 of acquisition costs relating to the acquired Teva portfolio, Foam Assets and other transactions were expensed.

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NOTE 7 – INCOME TAX

A. The major components of income tax expense are:

	2018 $'000	2017 $'000
Income tax benefit / (expense)		
Current income tax	1,632	(44,939)
Adjustment in respect of current income tax of previous years	2,126	(495)
Deferred income tax	28,772	15,525
Income tax expense in the consolidated statement of profit or loss and other comprehensive income	32,530	(29,909)
Deferred income tax benefit/(expense) included in income tax expense comprises		
Increase in deferred tax assets	163	32,598
(Increase) in deferred tax liabilities	28,609	(17,073)
	28,772	15,525

B. Numerical reconciliation between aggregate tax expense recognised in the consolidated statement of profit or loss and other comprehensive income and tax expense calculated per the statutory income tax rate

	2018 $'000	2017 $'000
The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:		
Profit/(loss) before income tax	(166,787)	115,935
Prima facie tax benefit/(expense) at 30%	50,036	(34,781)
Effect of R&D concessions	1,110	707
Over/(under) provision in respect of prior years	2,126	(495)
Non-deductible expenses for tax purposes		
Share-based payments	(4,389)	(974)
Acquisition costs	-	(337)
Asset impairment - Goodwill	(11,400)	-
Amortisation intangibles	(1,625)	(1,531)
Other non-deductible expenses	441	(4,637)
Non-assessable income	11,162	18,013
Tax losses not recognised	(8,473)	(1,559)
Effect of different tax rate in US compared to Australia	(3,476)	(2,252)
US State taxes	5,687	(2,097)
Restatement of DTA & DTL re US tax rate changes	(8,669)	(735)
US Domestic production activity deduction	-	769
Income tax expense	32,530	(29,909)

C. Recognised deferred tax assets and liabilities

	2018 $'000	2017 $'000
Deferred tax assets		
Intangible assets	29,537	7,131
Provisions	5,981	5,245
Other		
Payables	15,819	45,957
Carry forward tax losses and R&D credits	11,659	121
Inventory	7,633	12,299
Unrealised FX losses	134	317
Employee share options	728	3,512
Equity raising costs	275	590
US State taxes	7,529	4,628
Earn-out liability	343	343
Other	763	534
	44,883	68,301
	80,401	80,677

	2018 $'000	2017 $'000
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Assets	80,401	80,677
Set off of Deferred Tax Liabilities that are expected to reverse in the same period	(15,237)	(19,473)
Net Deferred Tax Assets [1]	65,164	61,204

Note: 1. Represent Australian and US Deferred Tax Assets that cannot be offset.

	INTANGIBILE ASSETS $'000	PROVISIONS $'000	OTHER $'000	TOTAL $'000
Deferred tax asset movements				
Balance at 1 July 2016	1,883	2,542	45,222	49,647
Credit/(charge) to profit/loss	5,248	2,727	24,623	32,598
Credit direct to equity	-	-	(797)	(797)
Restatement of foreign currency balances	-	(24)	(747)	(771)
Balance at 30 June 2017	7,131	5,245	68,301	80,677
Credit/(charge) to profit/loss	22,406	708	(22,951)	163
Credit direct to equity	-	-	(1,324)	(1,324)
Remeasurement of foreign currency balances	-	28	857	885
Balance at 30 June 2018	29,537	5,981	44,883	80,401

	2018 $'000	2017 '000
Deferred tax liabilities		
Property, plant and equipment	13,742	6,339
Intangible assets	32,637	50,847
Other		
Unrealised foreign exchange gains	-	2,275
US State taxes	2,870	6,215
Prepayments	-	10,643
Other	18	66
	2,888	19,199
	49,267	76,385
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Liabilities	49,267	76,385
Set off of Deferred Tax Assets that are expected to reverse in the same period	(15,237)	(19,473)
Net Deferred Tax Liabilities[1]	34,030	56,912

	PROPERTY PLANT EQUIPMENT $'000	INTANGIBLE ASSETS $'000	OTHER $'000	TOTAL $'000
Deferred tax liability movements				
Balance at 1 July 2016	4,468	46,805	8,215	59,488
Charge/(credit) to profit/loss	1,957	4,629	10,487	17,073
Restatement of foreign currency balances	(86)	(587)	497	(176)
Balance at 30 June 2017	6,339	50,847	19,199	76,385
Charge/(credit) to profit/loss	7,193	(19,362)	(16,440)	(28,609)
Remeasurement of foreign currency balances	210	1,152	130	1,492
Balance at 30 June 2018	13,742	32,637	2,889	49,268

Note: 1. Represent US Deferred Tax Liabilities that cannot be offset.

Deferred tax assets and deferred tax liabilities are presented based on their respective tax jurisdictions.

Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. These entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

US federal corporate tax changes

The US legislation Tax Cuts and Jobs Act enacted in December 2017 means that Mayne Pharma's operations in the US will be subject to a blended federal income tax rate of 28.1% for the whole of FY18. Income tax expense (above) for the current period relating to Mayne Pharma's US operations has therefore been determined using 28.1%. This is a reduction from the US federal corporate rate applying in prior periods of 35%. For FY19 onwards the US federal corporate rate of 21% will apply to Mayne Pharma's US operations.

Due to the US federal corporate tax rate changes, US denoted deferred tax assets and US denoted deferred tax liabilities that are expected to reverse in FY19 or beyond have been restated using the 21% rate. As Mayne Pharma has a net US denoted deferred tax asset, this has resulted in an additional tax expense - the Restatement of DTA & DTL re US tax rate changes tax expense as disclosed above. This restatement includes changes to the blended US state corporate income tax rate which varies depending on activity and tax rates in the US states in which Mayne Pharma operates.

Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities are part of an income tax consolidated group.

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The Company and its controlled entities in the income tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of current taxes and deferred taxes to allocate to the members of the income tax consolidated group.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the income tax consolidated group.

Each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income.

Assets or liabilities arising under the tax funding agreement with the income tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned income tax consolidation entities.

Significant accounting judgements

Deferred tax assets

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets are recognised in the Consolidated Statement of Financial Position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future revenues, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation in the jurisdictions in which the Group operates and the application of the arm's length principle to related party transactions. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may affect the carrying amount of deferred tax assets and liabilities. Any resulting adjustment to the carrying value of a deferred tax item will be recorded in the Statement of Profit or Loss and Other Comprehensive Income.

The Group has an unbooked tax loss of $6.0m not recognised as a deferred tax asset at 30 June 2018 (2017: nil). These tax losses have an indefinite life and are subject to meeting the deductibility rules.

NOTE 8 – EARNINGS PER SHARE

	2018	2017
Earnings per share for profit attributable to the ordinary equity holders of the Parent:		
Basic earnings per share	(9.16) cents	6.18 cents
Diluted earnings per share	(9.16) cents	6.06 cents

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS calculations:

	2018 $'000	2017 $'000
For basic earnings per share		
Net profit attributable to equity holders of the Company	(133,984)	88,567
For diluted earnings per share		
Net profit attributable to equity holders of the Company	(133,984)	88,567

	2018 '000	2017 '000
Weighted average number of ordinary shares for basic earnings per share	1,462,867	1,433,643
Effect of dilution:		
Share options and LTI shares	5,174	26,706
Weighted average number of ordinary shares adjusted for the effect of dilution	1,468,041	1,460,349

The calculation of weighted average number of ordinary shares adjusted for the effect of dilution does not include the following options and LTI shares which could potentially dilute basic earnings per share in the future, but were not dilutive in the periods presented:

	2018 '000	2017 '000
Number of potential ordinary shares	85,700	21,121

There have been no subsequent transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding at the end of the reporting period.

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NOTE 9 – TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Current		
Trade receivables (net of charge-backs)	252,013	223,012
Trade receivables – profit share	292	1,872
Provision for impairment	(635)	(1,323)
Other receivables	1,045	2,272
	252,715	225,833

At 30 June, the ageing analysis of trade receivables is as follows:

	NOT PAST DUE NOR IMPAIRED WITHIN TERMS $'000	OVERDUE AND NOT IMPAIRED 0-30 DAYS OVERDUE $'000	OVERDUE AND NOT IMPAIRED 30+ DAYS OVERDUE $'000	TOTAL $'000
Trade receivables 30 June 2018	245,065	1,830	4,775	251,670
Trade receivables 30 June 2017	218,137	122	5,302	223,561

Trade and other receivables

Trade receivables are non-interest bearing and are generally on 30-90-day terms. A provision for impairment loss is raised when there is objective evidence that the Group will not be able to collect the debt. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. As at reporting date, $635,000 (2017: $1,323,000) of receivables were considered impaired. Collectability of trade receivables is reviewed on an ongoing basis. Trade receivables – profit share is due on 90-day terms. None of these receivables are considered impaired at reporting date.

Due to the short-term nature of these receivables, their carrying value approximates their fair value.

Charge-backs

Charge-backs occur where the Company has arrangements with indirect customers to sell products at prices that are lower than the price charged to wholesalers. A charge-back represents the difference between the invoice price to the wholesaler and the indirect customer's contract price. Chargebacks reduce revenue and trade receivables by the estimate of chargebacks attributable to a sale transaction. Provisions for estimated charge-backs are calculated using a combination of factors such as historical experience, product growth rates, payments, product pricing, level of inventory in the distribution channel, the terms of individual agreements.

The Group offers cash discounts to customers to encourage prompt payment. Cash discounts are estimated and accrued at the time of invoicing and are deducted from trade receivables and revenue.

Other receivables include amounts outstanding for goods and services tax (GST). These amounts are non-interest bearing and have repayment terms applicable under the relevant government authority. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

NOTE 10 – INVENTORIES

	2018 $'000	2017 $'000
Raw materials and stores at cost	33,625	25,682
Work in progress at cost	7,546	2,293
Finished goods at lower of cost and net realisable value	40,985	78,419
	82,156	106,394

Recognition and measurement

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- *Raw materials* - purchase cost on a first-in, first-out basis.
- *Finished goods and work-in-progress* - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

The Group has recognised provisions at reporting date for obsolescence and net realisable value adjustments of $21,793,000 (2017: $9,928,000).

Significant accounting estimates and judgements

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Group assesses net realisable value and obsolescence provisions by reviewing estimated future sales, quantities on hand and the shelf life of the relevant inventory. Estimating future sales values, quantities and the timing of future sales requires management judgement. The Group may incur costs that differ from its original estimate.

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NOTE 11 – OTHER FINANCIAL ASSETS

	2018 $'000	2017 $'000
Current		
Restricted cash	365	365
Unbilled client service fees	-	37
Mark to market value of interest rate swaps contracts	6,747	1,415
Warrants	8,316	6,208
	15,428	8,025

Restricted cash represents cash held as security for letters of credit.

The warrants represent options to acquire shares in HPPI as follows:

	EXERCISE PRICE (US CENTS)	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR	ACQUIRED DURING THE YEAR	EXERCISED DURING THE YEAR	BALANCE AT END OF YEAR	2018 $'000	2017 $'000
			Number	Number	Number	Number		
Unlisted options	12.00	27/5/21	23,504,236	-	-	23,504,236	7,171	6,208
Unlisted options	23.00	9/1/20	-	2,608,696	-	2,608,696	497	-
Unlisted options	27.50	9/1/23	-	2,608,696	-	2,608,696	648	-
			23,504,236	5,217,392	-	28,721,628	8,316	6,208

The warrants have been recognised at fair value using the Black-Scholes method. A fair value increment of $1.6m (2017: increment $5.3m) was recognised during the period in relation to the warrants.

In January 2018, Mayne Pharma invested an additional US$2.4m in HPPI and received 3,478,261 Series B Preference shares, 2,608,696 "A" warrants (exercisable at $0.23 each) and 2,608,696 "B" warrants (exercisable at $0.275 each). The B preference shares are convertible into ordinary shares on a one preference share to three ordinary shares basis.

During the prior comparable period, the Company exercised various HPPI warrants contributing additional capital of US$3.983m to HPPI.

Financial Instruments

Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are designated upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

The Group holds warrants which are derivatives and are not hedging instruments and hence are held at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value included in the statement of profit or loss.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Forward exchange contracts

The Group uses derivative financial instruments (forward currency contracts) to hedge its risks associated with foreign currency fluctuations. These derivatives do not qualify for hedge accounting and mark to market valuation adjustments are recognised in profit or loss in income or expenses.

NOTE 12 – OTHER ASSETS

	2018 $'000	2017 $'000
Current		
Prepayments	20,950	10,869
	20,950	10,869

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NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	LAND $'000	BUILDINGS $'000	PLANT AND EQUIPMENT $'000	CAPITAL UNDER CONSTRUCTION $'000	TOTAL $'000
Year ended 30 June 2018					
Balance at beginning of year net of accumulated depreciation	9,132	27,687	33,545	118,908	189,272
Additions	-	583	33,162	10,064	43,809
Transfers	-	74,825	37,763	(112,588)	-
Depreciation charge for year	-	(1,875)	(7,808)	-	(9,683)
Foreign currency restatement	174	3,758	3,398	(677)	6,653
Balance at end of year net of accumulated depreciation	9,306	104,978	100,060	15,707	230,051
At 30 June 2018					
At cost	9,306	112,296	134,333	15,707	271,642
Accumulated depreciation	-	(7,318)	(34,273)	-	(41,591)
Net carrying amount	9,306	104,978	100,060	15,707	230,051
Year ended 30 June 2017					
Balance at beginning of year net of accumulated depreciation	9,283	27,092	22,013	26,061	84,449
Additions	-	2,210	17,703	95,129	115,042
Disposals	-	-	(33)	-	(33)
Depreciation charge for year	-	(971)	(5,543)	-	(6,514)
Foreign currency restatement	(151)	(644)	(595)	(2,282)	(3,672)
Balance at end of year net of accumulated depreciation	9,132	27,687	33,545	118,908	189,272
At 30 June 2017					
At cost	9,132	32,928	59,259	118,908	220,227
Accumulated depreciation	-	(5,241)	(25,714)	-	(30,955)
Net carrying amount	9,132	27,687	33,545	118,908	189,272

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are measured at cost less accumulated depreciation on buildings and less any impairment losses.

Property, plant and equipment is assessed for impairment whenever there is an indication that the balance sheet carrying value amount may not be recoverable using cash flow projections for the useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Land	Not depreciated
Buildings	Over 40 years
Plant and equipment	Between 1.5 and 20 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year-end. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Government grants obtained for construction activities, including any related equipment, are deducted from the gross acquisition costs to arrive at the balance sheet carrying value of the related assets.

Significant accounting estimates and assumptions

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties and lease terms. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

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NOTE 14 – INTANGIBLE ASSETS AND GOODWILL

	GOODWILL $'000	CUSTOMER CONTRACTS, CUSTOMER RELATIONSHIPS, PRODUCT RIGHTS AND INTELLECTUAL PROPERTY $'000	DEVELOPMENT EXPENDITURE $'000	MARKETING & DISTRIBUTION RIGHTS $'000	TRADE NAMES $'000	TOTAL $'000
Year ended 30 June 2018						
Balance at beginning of year net of accumulated amortisation	58,217	978,206	91,611	55,286	52,121	1,235,441
Additions	-	6,617	33,046	755	-	40,418
Amortisation	-	(59,857)	(3,397)	(2,664)	(4,282)	(70,200)
Impairments	(38,003)	(115,465)	(22,110)	(8,795)	-	(184,374)
Foreign currency restatement	402	28,785	3,075	847	131	33,240
Balance at end of year net of accumulated amortisation	20,616	838,286	102,225	45,429	47,970	1,054,526
As at 30 June 2018						
Cost	60,395	1,131,681	139,854	60,146	68,878	1,460,954
Accumulated amortisation	-	(155,473)	(8,826)	(5,443)	(20,854)	(190,596)
Accumulated impairments	(39,779)	(137,922)	(28,803)	(9,274)	(54)	(215,832)
Net carrying amount	20,616	838,286	102,225	45,429	47,970	1,054,526
The split between indefinite and definite life assets is as follows -						
Indefinite life assets	20,616	94,412	80,889	27,880	-	223,797
Definite life assets	-	743,874	21,336	17,549	47,970	830,729
Net carrying amount	20,616	838,286	102,225	45,429	47,970	1,054,526
Year ended 30 June 2017						
Balance at beginning of year net of accumulated amortisation	60,115	85,312	72,048	57,402	57,606	332,483
Additions	-	986,761	27,802	1,428	-	1,015,991
Amortisation	-	(56,410)	(3,224)	(2,160)	(5,360)	(67,154)
Impairments	-	(17,286)	(2,861)	(66)	-	(20,213)
Foreign currency restatement	(1,898)	(20,171)	(2,154)	(1,318)	(125)	(25,666)
Balance at end of year net of accumulated amortisation	58,217	978,206	91,611	55,286	52,121	1,235,441
As at 30 June 2017						
Cost	58,217	1,085,390	102,587	59,443	68,693	1,374,330
Accumulated amortisation	-	(90,228)	(5,164)	(4,092)	(16,520)	(116,004)
Accumulated impairments	-	(16,956)	(5,812)	(65)	(52)	(22,885)
Net carrying amount	58,217	978,206	91,611	55,286	52,121	1,235,441

Goodwill and intangibles

Goodwill arises in a business combination and is the excess of the consideration transferred to acquire a business over the underlying fair value of the net identified assets acquired. It is allocated to groups of cash-generating units (CGUs) which are usually represented by reported segments. Goodwill is tested for impairment annually at the CGU level and any impairment charges are recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The aggregate carrying amounts of goodwill are allocated to the Group's cash-generating units as follows:

	2018 $'000	2017 $'000
GPD	-	38,332
MCS	20,225	19,494
MPI	391	391
Closing goodwill balance at 30 June	20,616	58,217

Goodwill arising from the acquisition of Mayne Pharma Inc (formerly Metrics Inc), was allocated between two CGUs operating in the US, namely the GPD and MCS reporting segments. The allocation split was 65% to GPD and the balance to MCS. Goodwill arising on the acquisition of Libertas Pharma Inc (now part of Mayne Pharma Inc) was also allocated to the GPD CGU. At December 2017, the Goodwill allocated to the GPD CGU was fully impaired.

Intangible Assets

Intangible assets acquired separately, or in a business combination, are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Indefinite life intangible assets are reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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Certain intangible assets other than goodwill (i.e. customer contracts, relationships, intellectual property, distribution rights and trade marks) have been assessed as having finite useful lives and, as such, are amortised over their useful lives. Intangible assets relating to the Metrics, Libertas and HPPI acquisitions are also amortised on a straight-line basis. The useful lives range from five to fifteen years, and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in an accounting estimate. The amortisation expense on intangible assets with definite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Certain marketing and distribution rights, development expenditure and other intellectual property are considered to have an indefinite life and hence are not amortised. These assets, considered on an individual asset basis, have been determined as indefinite life based on the expected life of the relevant product. The assessment of indefinite versus definite life is reviewed annually.

Significant accounting judgements

Research and development expenditure

Research costs are expensed as incurred. Development expenditures on an individual project, and acquired research and development intangible assets, which are still under development and have not yet obtained approval, are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Significant accounting estimates and assumptions

Impairment of goodwill and intangible assets

Intangible asset impairments recognised during the period totalled $184.4m, following a detailed review of the Company's intangible assets. The review considered the current and projected US market dynamics for the portfolio and the industry, and consisted of the following:

As disclosed in the first half:

- Pipeline products (includes development expenditure and acquired products not on market): $22.0m
- GPD - Women's Health (acquired product rights and distribution rights): $87.2m
- GPD - Other (acquired product rights and distribution rights): $36.5m
- GPD Segment (Goodwill balance held at the segment CGU level): $37.8m

Plus $0.9m FX variance in the second half.

An asset is considered impaired when its balance sheet carrying amount exceeds its estimated recoverable amount, which is defined as the higher of its fair value less cost of disposal and its value in use. The Group applies the value in use method which utilises net present value techniques using post-tax cash flows and discount rates.

The estimates used in calculating value-in-use are highly sensitive, and depend on assumptions specific to the nature of the Group's activities with regard to;

- amount and timing of projected future cash flows;
- long-term sales forecasts;
- sales erosion rates after the end of patent or other intellectual property rights protection and timing of entry of generic competition;
- applicable tax rates;
- behaviour of competitors (launch of competing products, marketing initiatives, etc);
- selected discount and terminal growth rates; and
- in the case of unlaunched products:
    - the outcome of R&D activities (compound efficacy, results of clinical trials, etc);
    - amount and timing of projected costs to develop in process research and development into commercially viable products; and
    - probability of obtaining regulatory approvals.

Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived from discounting techniques.

Goodwill and Intangible Impairment Testing Methodology

For impairment testing, Intangible Assets (other than Goodwill) are allocated to individual CGUs (which are the Therapeutic Groups or 'TG') which are then combined into the overall reporting segment CGUs of GPD, SBD, MCS and MPI. Goodwill testing is performed at the segment level. Assets not included in these CGUs are those related to HPPI's intellectual property.

Each segment or CGU to which the Goodwill or Intangible asset is so allocated represents the lowest level within the Group at which the asset is monitored for internal management purposes and separately identifiable cash flows are present and is not larger than a reporting segment.

The following CGU and TG structure has been determined for impairment testing:

- GPD segment with two Therapeutic Groups being 'Women's Health' (GPD WH) and 'Other' (GPD Other);
- SBD segment with one Therapeutic Group being 'Dermatology';
- MCS segment; and
- MPI segment with two Therapeutic Groups being 'Dermatology' (MPI Dermatology) and 'Other' (MPI Other).

The testing methodology for the recoverable value of each asset is as follows:

- Allocate the asset value to the relevant CGU including an allocation of corporate assets and costs;
- Estimate cash flows generated over the life of the CGU;
- Calculate the Weighted Average Cost of Capital (WACC) of the CGU; and
- Discount the cash flows using WACC and compare to the CGU allocated asset carrying value.

For the Annual Report as at 30 June 2017 and the Interim Report as at 31 December 2017, certain indefinite life intangible assets and intangible assets not yet available for use were not included in a CGU but were tested individually and at least on an annual basis. These include purchased assets not yet launched and R&D in process, which were tested with specific consideration of:

- the outcome of R&D activities (compound efficacy, results of clinical trials, etc);
- amount and timing of projected costs to develop in process research and development into commercially viable products; and
- probability of obtaining regulatory approvals.

These assets, and related cashflows, have been included in the relevant CGU for current testing purposes and are also tested individually and on at least an annual basis. This change in building up the Value-In-Use cash flows of the CGUs, which constitutes a change in accounting estimate, has been performed to better align the impairment testing of the Group's intangible assets to the way in which its operations and therapeutic groups of product portfolios are managed, and to achieve consistency with normal impairment testing and valuation practices of peer companies in the US and Europe.

As a result of individual testing, R&D in process projects were impaired totalling $22.2m (all of which occurred in 1HFY18) (2017: $3.5m)

HPPI's intellectual property represents a similar asset to R&D in process. This asset is tested individually and at least on an annual basis.

The allocation of intangible assets to segments is shown in the table below.

2018	MPI $000	GPD $000	SBD $000	MCS $000	OTHER $000	TOTAL $000
HPPI	-	-	-	-	30,953	30,953
Goodwill	391	-	-	20,225	-	20,616
Other Intangibles	84,307	849,918	62,704	6,028	-	1,002,957
Total Intangibles	**84,698**	**849,918**	**62,704**	**26,253**	**30,953**	**1,054,526**

Key assumptions in impairment testing methodology include:

- CGU cash flow forecasts (including allocation of corporate overhead) are based on the FY19 Annual Budget and specific cash flows are further forecasted out to FY23;
- A terminal growth rate is applied; and
- Individual CGU discount rates have been used.

Discount rates reflect Management's estimate of the time value of money and the risks specific to the CGU and have been determined using the WACC. There has been no change from those used as at 30 June 2017 other than the change in US tax rates enacted in December 2017.

The post-tax discount rates used are shown below:

- MCS: 10.2% (FY17: 10.0%)
- SBD: 10.2% (FY17: 10.0%)
- GPD: 9.6% [1] (FY17: 9.6%)
- MPI: 9.6% [2] (FY17: 9.6%)

Notes: 1. The Women's Health and Other TGs in GPD also use the same WACC.
2 The Dermatology and Other TGs in MPI also use the same WACC.

A comparison of the MCS, GPD, SBD and MPI CGU segments and their related TGs assumed forecast net sales growth rates for the current year impairment testing is shown in the table below. These average growth rates are assumptions determined to satisfy applicable accounting standards but should not be used for guidance.

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	FY18 ASSUMED AVERAGE FORECAST GROWTH RATES 1st FIVE YEARS	FY18 ASSUMED TERMINAL VALUE GROWTH RATE	FY17 ASSUMED AVERAGE FORECAST GROWTH RATES 1st FIVE YEARS	FY17 ASSUMED TERMINAL VALUE GROWTH RATE
MCS CGU forecast net sales growth	12%	2%	12%	2%
GPD CGU forecast net sales growth	-1%	-1%	-5%	-1%
GPD WH TG forecast net sales growth	*4%*	*-1%*	*-10%*	*-1%*
GPD Other TG forecast net sales growth	*-1%*	*-1%*	*-2%*	*-1%*
SBD CGU forecast net sales growth	20%	-3%	54%[2]	-3%
MPI CGU forecast net sales growth	17%	*0%*	8%	*-2%*
MPI Dermatology TG forecast net sales growth	*35%*[1]	*0%*	*9%*	*-3%*
MPI Other TG forecast net sales growth	*6%*	*0%*	*7%*	*0%*

Notes: 1. Growth rate for MPI Dermatology (and MPI) impacted by the effect of Doryx returns in FY18.
2. Significantly impacted by the acquisition of Fabior/Sorilux in FY17 and relaunch of these products by Mayne Pharma in January 2017 (i.e. FY17 base year was not a full year of net sales).

Sensitivity to changes in assumptions

The table below shows the sensitivity of the changes in key variables on recoverable values.

A$m	+/-1% Change in Net Sales Growth[1]	+/-1% Change in Terminal Growth Rate	+/-1% Change in WACC
GPD CGU	*+31/-31*	+98/-82	-108/+130
GPD WH TG	*+3/-3*	*+19/-16*	*-21/+25*
GPD Other TG	*+28/-28*	*+79/-66*	*-87/+105*
SBD CGU	+10/-9	+11/-10	-16/+19
MPI CGU	+7/-6	+20/-17	*-23/+28*
MPI Dermatology TG	*+5/-4*	*+12/-10*	*-16/+20*
MPI Other TG	*+2/-2*	*+8/-7*	*-7/+8*

Note: 1. Change refers to the movement in net sales growth rates for launched products from F20 to F23

Based on currently available information, there are no reasonably possible changes to any of the above key assumptions that would result in the carrying value of the MCS CGU to materially exceed its recoverable value.

Estimation of useful lives of assets

The estimation of the useful lives of intangible assets has been based on the assets' contractual lives for the expected period of the future cash flows. The valuation assumptions used are assessed at least annually and considered against the useful life and adjustments to useful lives are made when considered necessary.

During the year ended 30 June 2018 Kapanol was reassessed from an indefinite life asset to a 10 year definite life asset. The impact of this change for the current period was to increase amortisation expense by $1.4m.

During the year ended 30 June 2017, the useful life of Doryx, Fabior and Sorilux were reassessed from 10 to 15 years from the time of acquisition, and the useful lives of the acquired Teva portfolio of generic assets were reassessed from 20 to 15 years. The net impact of the changes to useful lives in the prior period was a before tax charge to the Consolidated Statement of Profit or Loss and Other Comprehensive Income of $4.3m (Doryx a credit of $1.1m, Foam Assets a credit of $1.0m and the acquired Teva portfolio an additional charge of $6.4m). As these changes were made effective 1 January 2017, these values represent changes for six months. It is therefore expected that the full year impact of these changes going forward will be approximately a net increase to amortisation of $8.6m pa (subject to AUD/USD exchange rate changes).

NOTE 15 – TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Current		
Trade payables	63,888	66,593
Accrued rebates, returns and loyalty programs	66,096	64,465
Other payables	22,577	16,519
	152,561	147,577

Information regarding liquidity risk exposure is set out in Note 3.

Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Significant accounting judgements

Customer rebates, returns and loyalty programs

The Group offers rebates to purchasing organisations and other direct and indirect customers to sustain and increase market share for products. Since rebates are contractually agreed upon, the related provisions are estimated based on the terms of the individual agreements, historical experience, and projected product growth rates.

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Sales discounts, such as co-pay discount cards, are offered in some markets. The estimated amounts of these discounts are recorded at the time of sale and are estimated utilising historical experience and the specific terms for each program. If a discount for a probable future transaction is offered as part of a sales transaction, then an appropriate portion of revenue is deferred to cover this estimated obligation.

The United States Medicaid Drug Rebate Program is a partnership between Centers for Medicare and Medicaid Services (CMS), State Medicaid Agencies, and participating drug manufacturers that helps to offset the Federal and State costs of most outpatient drugs dispensed to Medicaid patients. Calculating the rebates to be paid related to this program involves interpreting relevant regulations, which are subject to challenge or change in interpretative guidance by government authorities. Accruals for estimating Medicaid rebates are calculated using a combination of historical experience, product and population growth, product pricing and the mix of contracts and specific terms in the individual State agreements. The United States Federal Medicare Program offers assistance to Medicare eligible recipients by funding healthcare benefits to individuals aged 65 or older and those with certain disabilities, providing prescription drug benefits under Part D section of the program. This Part D benefit is provided and administered through private prescription drug plans. Accruals for estimating Medicare Part D rebates are calculated based on the terms of individual plan agreements, product sales and population growth, product pricing and the mix of contracts. We offer rebates to key managed healthcare and private plans to sustain and increase sales of our products. These programs provide a rebate after the plans have demonstrated they have met all terms and conditions set forth in their contract with the Group. These rebates are estimated based on the terms of individual agreements, historical experience, product pricing, and projected product growth rates. These accruals are adjusted based on established processes and experiences from filing data with individual states and plans. There is often a time lag of several months between the Group recording the revenue deductions and the final accounting for them.

The Group offers customers the right to return product. An accrual for estimated sales returns is recorded based on our sales return policy and historical return rates. Other factors considered include expected marketplace changes and the remaining shelf life of the product.

Following a decrease in the price of a product, the Group generally grant customers a 'shelf stock adjustment' for their existing inventory for the relevant product. Accruals for shelf stock adjustments are determined at the time of the price decline, if the impact of a price decline on the products sold can be reasonably estimated based on the customer's inventory levels of the relevant product.

The accruals for revenue deductions are adjusted periodically to reflect actual experience. To evaluate the adequacy of accrual balances, the Group uses internal and external estimates of the inventory in transit, the level of inventory in the distribution and retail channels actual claims data received and the time lag for processing rebate claims. External data sources include reports from wholesalers.

Accruals are made for customer rebates and loyalty programs. The Group may incur costs that differ from its original estimate.

NOTE 16 – INTEREST-BEARING LOANS AND BORROWINGS

	2018 $'000	2017 $'000
Current		
Syndicated loan (working capital facility)	-	13,011
Lease liabilities	58	113
	58	13,124

	2018 $'000	2017 $'000
Non-current		
Syndicated loan	378,020	331,722
Borrowing costs (net of amortisation)	(3,910)	(4,683)
Lease liabilities	22	83
	374,132	327,122

The loan facility is supported by a syndicate of nine banks. The loan facility limit is US$400m comprising a 3-year US$150m term loan and a 5-year US$250m revolving facility with working capital facilities of A$10m and US$20m also available. The loan facility can be drawn down in either USD or AUD with USD expected to be the major currency drawn down. The working capital facilities are subject to the same financial covenants as the syndicated loan facility. The working capital facilities initially had a one-year term which matured 28 July 2017. These facilities were extended for a two-year period and now mature 28 July 2019. The total amount drawn, across all facilities, at 30 June 2018 was US$280m (2017: US$265m).

The facilities are unsecured and incur interest based on either LIBOR (for USD) with no floor, or BBSY (for AUD) plus a margin based on a net debt leverage ratio. The facilities are subject to certain covenants and have an unused line fee payable based on the undrawn amounts.

The Group complied with the covenants at reporting date. The Directors believe there is no risk of default at reporting date.

At 30 June 2018, the average variable interest rate was 4.205% (30 June 2017: 3.154%). During the period, the Group entered into additional interest rate swap contracts to hedge the interest rate risk exposure with 54% of the outstanding US dollar loan amount hedged at 30 June 2018 (30 June 2017: 49%). The interest rate risk is managed using interest rate swaps in which the Group agrees to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

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Loan maturities are summarised as follows:

	2018 $'000	2017 '000
Current	-	13,011
Non-current	378,020	331,722
	378,020	344,733
Due by 30 June 2018	-	13,011
Due by 30 June 2019	-	-
Due by 30 June 2020	202,510	195,160
Due by 30 June 2021	-	-
Due by 30 June 2022	175,510	136,562
	378,020	344,733

There were no defaults or breaches on any loans during the year ended 30 June 2018.

Changes in liabilities arising from financing activities	BALANCE 30 JUNE 2017 $'000	CASH FLOWS $'000	FOREIGN EXCHANGE MOVEMENTS $'000	BALANCE 30 JUNE 2018 $'000
Syndicated loan	344,733	19,396	13,891	378,020

Recognition and measurement

Interest-bearing loans and borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or asset and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the lease item are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

NOTE 17 – OTHER FINANCIAL LIABILITIES

	2018 $'000	2017 $'000
Current		
Earn-out liabilities – various products/distribution rights	916	3,980
Deferred consideration – various products/distribution rights	11,321	17,728
Completion of clinical studies obligation relating to acquired asset	240	2,342
	12,477	24,050

	2018 $'000	2017 $'000
Non-Current		
Completion of clinical studies obligation relating to acquired asset	-	2,512
Earn-out liabilities – various products/distribution rights	1,442	1,759
Deferred consideration – various products/distribution rights	3,908	12,634
	5,350	16,905

The consolidated entity has recognised various earn-out liabilities relating to various asset purchases. Most of the earn-outs are based on a percentage of net sales and typically payable on a quarterly to annual basis for a period of between two and five years.

Deferred consideration recognised includes amounts which have contingent conditions such as FDA approvals and on market conditions (e.g. no entry of a new competitor into the relevant market). At balance date, the Group has assessed the amount expected to be paid for contingent amounts outlined in the asset purchase agreements.

Earn-out liabilities

Recognition and derecognition

Earn-out liabilities of the Group are initially recognised on the consolidated statement of financial position as part of business combinations and intangible asset acquisitions at fair value. Financial liabilities are derecognised when they are extinguished.

Subsequent measurement

After initial recognition, earn-out liabilities are recognised at fair value through profit or loss and are remeasured each reporting period. Movements in the liability from these changes are recognised in profit or loss.

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Significant accounting estimates and assumptions

Earn-out liabilities

The earn-out liabilities have been determined based on contracted royalty rates payable on expected future cash flows. The estimation of the cash flows over a significant period, combined with the impact of currency movements and interest rates may result in substantial movements in the value of the liabilities recognised between reporting periods. The cash flows, assumed discount rate and forecast exchange rates are reviewed every six months to ensure the most accurate fair value of the liabilities is reported. Movements in the liabilities from changes in these assumptions and forecasts are reported in the consolidated statement of profit of loss and other comprehensive income.

Earn-out liabilities represent the net present value of estimated future payments. Any changes in fair value for changes in the net present value of estimated future payments are recognised in the statement of profit or loss and other comprehensive income. The earn-out liabilities at reporting date include a charge representing the unwinding of the discounting of the earn-out liabilities of $1,482,000 (2017: $807,000) for the period.

Deferred consideration liabilities

Deferred consideration liabilities represent the net present value of future predetermined payments. At 30 June 2018 the deferred consideration amounts consist mainly of amounts which are subject to FDA approvals or similar milestone requirements.

NOTE 18 – PROVISIONS

	2018 $'000	2017 $'000
Current		
Employee benefits	12,329	8,261
Restructuring provision	2,472	-
	14,801	8,261
Non-Current		
Employee benefits	1,591	1,312
Restoration	350	350
	1,941	1,662

Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Restoration provision

The restoration provision represents the present value of anticipated costs for the future restoration of the Salisbury site. The outflows are expected to occur over 20 years.

Significant accounting estimates and assumptions

Restoration provision

The provision represents the present value of anticipated costs for future restoration of the Salisbury site. The calculation of this provision requires assumptions such as application of environmental legislation, timing of restoration and cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

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NOTE 19 – CONTRIBUTED EQUITY

Movements in contributed equity

	2018 Number	2017 Number	2018 $'000	2017 $'000
Balance at beginning of year	1,510,929,673	810,046,346	1,130,404	263,161
Issued during the year:				
Teva portfolio acquisition funding[1]	-	661,048,634	-	860,487
Tax effect of employee share options	-	-	(1,324)	(797)
Shares issued	35,000	-	52	-
Options exercised	5,115,000	15,406,000	2,629	7,427
LTI shares issued (restricted)[2]	73,593,458	26,771,758	-	-
LTI shares forfeited	(8,851,961)	(2,343,065)	-	-
LTI shares cancelled	(16,099,012)	-	-	-
LTI shares exercised (and loan repaid)	-	-	-	126
Balance at end of year	1,564,722,158	1,510,929,673	1,131,761	1,130,404

Notes: 1. Shares issued in pcp are net of $28.36m of equity raising costs (net of income tax).
2. The shares were granted under the ESLS and SLS (and are subject to risk of forfeiture).

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

A. Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

B. Capital management

The primary objective of the Group in relation to capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business objectives and to maximise shareholder value.

The Group manages its capital structure and adjusts it, considering changes in economic conditions and the Company's strategy. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares. During the year ended 30 June 2018 the Company issued new shares and amended available debt facilities. No changes were made in the objectives, policies or processes during the years ended 30 June 2018 and 30 June 2017.

The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and cash equivalents. The Group's current policy is to maintain a net debt position within policy limits set by the Directors and that can be serviced by the Group's cash flows.

	2018 $'000	2017 $'000
Interest-bearing borrowings	374,190	340,246
Less cash and cash equivalents	(87,312)	(63,027)
Net debt	286,878	277,219

The Group is subject to capital requirements under the terms of the syndicated loan facility.

NOTE 20 – RESERVES

	2018 $'000	2017 $'000
Share-based payments reserve	20,813	14,890
Cash flow hedge reserve	6,747	1,415
Other reserve	(3,721)	(4,020)
Foreign currency translation reserve	47,339	11,052
	71,178	23,337

Share-based payments reserve

The share-based payments reserve records the value of share-based payments provided to employees, including KMP, as part of their remuneration.

	2018 $'000	2017 $'000
Balance at beginning of year	14,890	7,950
Share-based payments expense	14,490	11,199
Transfer to contributed equity on exercise of options	(1,155)	(4,259)
Transfer to retained earnings on cancellation of employee shares	(7,412)	-
Balance at end of year	20,813	14,890

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Cash flow hedge reserve

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship.

	2018 $'000	2017 $'000
Balance at beginning of year	1,415	(864)
Mark to Market unrealised gain / (loss) on interest rate swap contracts	5,332	2,279
Balance at end of year	6,747	1,415

Other equity reserve

The Other equity reserve records movements in the Group's equity in partly-owned subsidiaries after recognising changes to non-controlling interests.

	2018 $'000	2017 $'000
Balance at beginning of year	(4,020)	1,180
Change to equity investment in HPPI	299	(2,513)
Employee withholding tax paid by HPPI in relation to exercise of Restricted Stock Units	-	(2,687)
Balance at end of year	(3,721)	(4,020)

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are recognised in Other Comprehensive Income as described in Note 1C and accumulated in a separate reserve within equity. Exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognised in profit or loss in the separate financial statements of the reporting entity. In the Group's financial statements that include the foreign operation and the reporting entity, such exchange differences are recognised initially in other comprehensive income. The cumulative amount is reclassified to profit and loss when the net investment is disposed of except for cumulative exchange differences relating to non-controlling interests.

	2018 $'000	2017 $'000
Balance at beginning of year	11,052	30,792
Foreign exchange translation differences	36,287	(19,740)
Balance at end of year	47,339	11,052

NOTE 21 – RETAINED EARNINGS

	2018 $'000	2017 $'000
Retained earnings at the beginning of the period	150,097	61,530
Transfer from Share-based payments reserve re cancelled employee shares	7,412	-
Net (loss) / profit attributable to members	(133,984)	88,567
Retained earnings at the end of the period	23,525	150,097

NOTE 22 – NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

A. Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and the for the purposes of the Statement of Cash Flows comprise cash at bank and in hand (excluding restricted cash) and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents at the end of the year as shown in the Statement of Financial Position and the Statement of Cash Flows comprise the following:

	2018 $'000	2017 $'000
Cash at bank and on hand	87,312	63,027

Cash at bank attracts floating interest at current market rates.

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B. Reconciliation of net profit after income tax to net cash used in operating activities

	2018 $'000	2017 $'000
Net (loss) / profit after income tax	(134,257)	86,026
Adjustments for:		
Depreciation	9,683	6,514
Amortisation of intangibles and borrowing costs	71,448	68,353
Share-based payments	14,490	11,199
Movement in earn-out liability	(325)	(517)
Asset impairments	184,374	20,213
Book value of intangible product rights disposed		-
Gain on restatement of HPPI investment and/or warrants	(1,622)	(5,307)
Net unrealised foreign exchange differences	1,556	6,842
Non-cash provisions	11,863	9,270
Changes in tax balances		
(Increase) in deferred tax assets	(163)	(32,598)
Increase in current and deferred tax liabilities	(40,334)	4,929
Operating cash flows before working capital movements	116,713	174,924
Changes in working capital		
(Increase) in receivables	(17,775)	(146,095)
Decrease / (Increase) in inventories	17,122	(79,748)
(Increase) / decrease in other assets	(8,680)	398
Increase in creditors	10,133	35,932
Increase / (decrease) in provisions	3,985	(648)
	4,785	(190,161)
Net cash from operating activities	121,498	(15,237)

NOTE 23 – RELATED PARTY DISCLOSURES

A. Subsidiaries

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

		% EQUITY INTEREST		INVESTMENT $'000	
	COUNTRY OF INCORPORATION	2018	2017	2018	2017
Mayne Pharma International Pty Ltd	Australia	100	100	39,205	39,205
Mayne Products Pty Ltd[1]	Australia	100	100	-	-
Mayne Pharma UK Limited[1]	United Kingdom	100	100	-	-
Mayne Pharma Inc	United States	100	100	82,708	76,802
Mayne Pharma Ventures Pty Ltd	Australia	100	100	-	-
Mayne Pharma Ventures LLC[1]	United States	100	100	-	-
Swan Pharmaceuticals LLC[1]	United States	100	100	-	-
Tiger Pharmaceuticals LLC[1]	United States	100	100	-	-
HedgePath Pharmaceuticals Inc	United States	53.5	53.5	23,396	20,823
Mayne Pharma SIP Pty Ltd	Australia	100	100	511,483	255,270
Mayne Pharma LLC	United States	100	100	-	-
Mayne Pharma (Switzerland) GmbH	Switzerland	100	-	-	-
				656,792	392,100

Note: 1. Dormant subsidiaries.

Financial information of a subsidiary which has a material non-controlling interest is as follows:

Portion of equity interest held by non-controlling interest:

		% EQUITY INTEREST	
	COUNTRY OF INCORPORATION	2018	2017
HedgePath Pharmaceuticals Inc	United States	46.5	46.5

Summarised statement of profit or loss for period ended 30 June 2018

	HPPI 2018 $'000	HPPI 2017 $'000
Revenue	-	-
Cost of sales	-	-
Interest income	13	47
Research and development expenses	(2,716)	(2,689)
Administration expenses	(1,574)	(1,985)
Depreciation and amortisation	(850)	(874)
Share-based payments expenses	(404)	(570)
Loss before tax	(5,531)	(6,071)
Income tax benefit	4,934	332
Loss after tax	(597)	(5,739)
Other Comprehensive income	380	(323)
Total Comprehensive income	(217)	(6,062)
Attributable to non-controlling interests	107	(2,864)

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Summarised statement of financial position as at 30 June 2018

	HPPI 2018 $'000	HPPI 2017 $'000
Cash at bank	1,074	2,138
Other current assets	525	544
Intangible assets	30,953	30,686
Trade and other payables	(624)	(442)
Deferred tax liabilities	(6,935)	(11,661)
Total equity	24,993	21,265
Attributable to equity holders of Mayne Pharma	12,301	10,565
Attributable to non-controlling interests	8,693	8,335

B. Ultimate parent

Mayne Pharma Group Limited is the ultimate parent entity.

C. KMP

Details relating to KMP, including remuneration paid, are included in Note 24.

D. Transactions with related parties

The Company had no other transactions with KMP or other related parties during the financial years ended 30 June 2018 or 30 June 2017.

Amounts owing to Directors, Director-related parties and other related parties at 30 June 2018 and 30 June 2017 were nil.

NOTE 24 – KMP DISCLOSURES

i. Directors and other KMP

The Directors of Mayne Pharma Group Limited during the financial year were:

- Mr Roger Corbett, AO - Chairman
- Mr Scott Richards - Managing Director and Chief Executive Officer
- Hon Ron Best - Independent Non-Executive Director
- Mr Patrick Blake - Independent Non-Executive Director (appointed 28 June 2018)
- Mr Frank Condella - Independent Non-Executive Director (appointed 30 May 2018)
- Ms Nancy Dolan - Independent Non-Executive Director
- Mr William (Phil) Hodges - Independent Non-Executive Director
- Mr Bruce Mathieson - Independent Non-Executive Director
- Prof Bruce Robinson, AM - Independent Non-Executive Director
- Mr Ian Scholes - Independent Non-Executive Director

Other KMP consisted of:

- Mr Nick Freeman - Group Chief Financial Officer and Company Secretary
- Mr Stefan Cross - President International Operations
- Dr Ilana Stancovski - Chief Scientific Officer and Head of European Market Development
- Ms Kate Rintoul - Executive Vice President and General Counsel
- Mr Eric Evans - Chief Financial Officer Mayne Pharma USA (resigned 18 August 2017)
- Mr Peter Paltoglou - Chief Development Officer and Head of M&A
- Ms Lisa Pendlebury - Vice President Investor Relations and Communications
- Mr Andrew Van Breugel - General Manager & Operations Director Salisbury (ceased to be KMP effective 31 December 2017)
- Mr John Ross - President Mayne Pharma USA (considered to be KMP from 1 January 2017)

ii. Compensation of KMP

	2018 $'000	2017 $'000
Short-term employee benefits	5,860	5,729
Post-employment benefits	266	305
Long-term benefits	51	21
Share-based payments excluding cancelled shares	3,174	4,086
Total excluding cancelled shares	9,351	10,141
Share-based payments expense relating to cancelled employee shares	1,843	-
	11,194	10,141

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NOTE 25 – AUDITOR'S REMUNERATION

	2018 $	2017 $
Amounts received or due and receivable by EY Australia for		
Audit and review of financial statements	1,036,600	949,500
Non-audit services		
Tax compliance services	105,465	202,000
Acquisition and other services		-
Other Assurance	280,029	282,500
	385,494	484,500
	1,422,094	1,434,000

	2018 $	2017 $
Non-audit services amounts received or due and receivable from member firms related to EY Australia		
Tax compliance and advisory services	495,400	714,061
Acquisition and other services	-	492,768

The above non-audit services are invoiced in USD to Mayne Pharma Inc. and are subject to foreign currency translation.

NOTE 26 - SHARE-BASED PAYMENT PLANS

The expense recognised for employee services received during the year is shown in the table below:

	2018 $'000	2017 $'000
Expense arising from equity-settled share-based payment transactions	7,078	8,738
Expense relating to cancelled employee shares	7,412	-
Option modifications	-	2,461
	14,490	11,199

Share-based payment transactions – recognition and measurement

The Group provides benefits to its employees (including KMP) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). If an employee leaves the Group prior to the vesting of any share-based payment previously granted to the employee, the share-based payment will normally be forfeited (subject to the discretion of the Board). Where an employee leaves the Group after the vesting but prior to the expiry of share-based payments granted, the employee normally has 12 months in which to exercise or the shares or options will lapse. If the Company's Employee Share Option Plan was cancelled, this would not affect the rights of employees in relation to previously issued share-based payments.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using an appropriate option-pricing model, depending on the complexity of the exercise conditions. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense.

The Group engaged an accredited independent valuer, to determine the fair value of options issued at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the vesting period.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (refer to Note 8).

Significant accounting estimates and assumptions

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using an appropriate option-pricing model depending on the complexity of the exercise conditions with both the Black Scholes option-pricing model and the Monte Carlo Simulation option-pricing model utilised during the period. The specific assumptions applied to the options issued during the year are provided in this note. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

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Share Options granted to employees

	EXERCISE PRICE	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	OTHER MOVEMENTS DURING THE YEAR NUMBER[1]	BALANCE AT END OF YEAR NUMBER	OPTIONS EXERCISABLE AT END OF YEAR NUMBER
Year ended 30 June 2018								
Unlisted options	$0.2184	12/01/19	4,295,000	-	(1,695,000)	-	2,600,000	2,600,000
Unlisted options	$0.2184	26/01/19	2,449,000	-	(1,880,000)	-	569,000	569,000
Unlisted options	$0.3184	1/07/19	500,000	-	(500,000)	-	-	-
Unlisted options	$0.5923	21/10/19	320,000	-	-	-	320,000	120,000
Unlisted options	$0.6647	11/11/19	1,000,000	-	-	-	1,000,000	500,000
Unlisted options	$0.6754	30/11/19	1,000,000	-	-	-	1,000,000	500,000
Unlisted options	$0.8003	28/03/19	600,000	-	-	(60,000)	540,000	510,000
Unlisted options	$0.7701	19/06/19	600,000	-	-	-	600,000	510,000
Unlisted options	$0.8188	30/06/19	700,000	-	-	(300,000)	400,000	200,000
Unlisted options	$0.8109	2/07/19	400,000	-	-	(200,000)	200,000	200,000
Unlisted options	$0.7437	1/08/19	200,000	-	-	-	200,000	-
Unlisted options	$0.7682	28/08/19	600,000	-	-	-	600,000	300,000
Unlisted options	$0.6447	17/12/19	600,000	-	(300,000)	(300,000)	-	-
Unlisted options	$0.5347	1/02/20	2,690,000	-	(740,000)	(1,050,000)	900,000	600,000
			15,954,000	-	(5,115,000)	(1,910,000)	8,929,000	6,609,000

Note: 1. Options were forfeited on the termination of employment.

No options were issued to executives under the ESOP during the year ended 30 June 2018.

	EXERCISE PRICE[1]	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	OTHER MOVEMENTS DURING THE YEAR NUMBER	BALANCE AT END OF YEAR NUMBER	OPTIONS EXERCISABLE AT END OF YEAR NUMBER
Year ended 30 June 2017								
Unlisted options	$0.1492	13/02/19	7,500,000	-	(7,500,000)	-	-	-
Unlisted options	$0.2184	12/01/19	7,220,000	-	(2,925,000)	-	4,295,000	4,295,000
Unlisted options	$0.2184	26/01/19	5,840,000	-	(3,291,000)	(100,000)[2]	2,449,000	2,449,000
Unlisted options	$0.2984	7/03/19	800,000	-	(800,000)	-	-	-
Unlisted options	$0.3184	1/07/19	1,000,000	-	(500,000)	-	500,000	-
Unlisted options	$0.5923	21/10/19	400,000	-	(80,000)	-	320,000	120,000
Unlisted options	$0.6647	11/11/19	1,000,000	-	-	-	1,000,000	500,000
Unlisted options	$0.6754	30/11/19	1,000,000	-	-	-	1,000,000	500,000
Unlisted options	$0.8003	28/03/19	600,000	-	-	-	600,000	510,000
Unlisted options	$0.7701	19/06/19	600,000	-	-	-	600,000	510,000
Unlisted options	$0.8188	30/06/19	1,000,000	-	(300,000)	-	700,000	200,000
Unlisted options	$0.8109	2/07/19	400,000	-	-	-	400,000	200,000
Unlisted options	$0.7437	1/08/19	200,000	-	-	-	200,000	-
Unlisted options	$0.7682	28/08/19	600,000	-	-	-	600,000	300,000
Unlisted options	$0.6447	17/12/19	600,000	-	-	-	600,000	300,000
Unlisted options	$0.5347	1/02/20	2,700,000	-	(10,000)	-	2,690,000	1,340,000
			31,460,000	-	(15,406,000)	(100,000)	15,954,000	11,224,000

Notes: 1. The exercise prices were reduced by 9.43 cents each effective 22 July 2016 under ASX Listing Rule 6.22 following the entitlement issue announced 28 June 2016.
2. Options were forfeited on the termination of employment.

No options were issued to executives under the ESOP during the year ended 30 June 2017.

Employee share option plan (ESOP)

An employee share option plan is in place where Directors and employees of the Company may be issued with options over the ordinary shares of the Company. Shareholders last approved the plan at the AGM held on 9 November 2012. The options, issued for nil consideration, are issued in accordance with guidelines established by the Directors of the Company.

Each employee option converts to one ordinary share in the Company upon exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The exercise price is set by reference to the volume weighted average price at which the Company's shares trade on the Australian Securities Exchange (ASX) across an agreed period. The contractual term varies across the various issues but generally ranges from three to six years and there are no cash settlement alternatives for employees.

No options were issued during the year ended 30 June 2018 (2017: nil) under the ESOP and the plan is not expected to be utilised going forward.

	2018 NUMBER OF OPTIONS	2018 WEIGHTED AVERAGE EXERCISE VALUE $	2017 NUMBER OF OPTIONS	2017 WEIGHTED AVERAGE EXERCISE VALUE $
Balance at beginning of year	15,954,000	0.4661	23,960,000	0.4127
Granted during the year	-	-	-	-
Exercised during financial year	(5,115,000)	0.2989	(7,906,000)	0.2634
Forfeitures	(1,910,000)	0.6339	(100,000)	0.3127
Balance at end of year	8,929,000	0.5260	15,954,000	0.4661

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Shares granted to employees

Under the ESLS and SLS, eligible employees acquire shares in the Company funded by a non-recourse loan from the Group. While shares are acquired under the plan for legal and taxation purposes, Australian Accounting Standards require the shares be treated as options for accounting purposes. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements.

The number of notional shares granted to employees under the ESLS is set out below:

	GRANT DATE	EXPIRY DATE	LOAN VALUE PER SHARE	NUMBER HELD AT 1 JULY 2017	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED, FORFEITED OR CANCELLED DURING THE YEAR [1]	NUMBER HELD AT 30 JUNE 2018
Year ended 30 June 2018								
Unlisted shares	8 Sep 14	8 Sep 19	$0.7636	1,092,063	-	-	(1,092,063)	-
Unlisted shares	4 Dec 14	4 Dec 19	$0.6815	3,823,529	-	-	-	3,823,529
Unlisted shares	2 Feb 15	2 Feb 20	$0.6163	833,003	-	-	-	833,003
Unlisted shares	3 Aug 15	31 Aug 20	$1.1000	10,774,191	-	-	(1,034,736)	9,739,455
Unlisted shares	5 Aug 15	31 Aug 20	$1.1538	974,997	-	-	(779,998)	194,999
Unlisted shares	24 Aug 15	31 Aug 20	$1.1297	2,231,344	-	-	-	2,231,344
Unlisted shares	11 Nov 15	31 Aug 20	$1.0200	1,079,772	-	-	(863,818)	215,954
Unlisted shares	11 Nov 15	31 Aug 20	$1.0460	524,070	-	-	-	524,070
Unlisted shares	4 Dec 15	31 Aug 20	$1.2300	2,553,496	-	-	-	2,553,496
Unlisted shares	11 Aug 16	31 Jul 21	$2.0100	18,022,917	-	-	(17,787,717)	235,200
Unlisted shares	26 Sep 16	31 Jul 21	$1.9558	427,000	-	-	(427,000)	-
Unlisted shares	11 Oct 16	31 Jul 21	$2.0000	242,000	-	-	(242,000)	-
Unlisted shares	25 Oct 16	31 Jul 21	$1.9139	186,779	-	-	(186,779)	-
Unlisted shares	6 Dec 16	31 Jul 21	$1.5760	2,242,005	-	-	-	2,242,005
Unlisted shares	3 Jan 17	31 Jan 22	$1.3720	3,378,000	-	-	(822,000)	2,556,000
Unlisted shares	9 Feb 17	31 Jan 22	$1.2770	1,548,938	-	-	(1,226,759)	322,179
Unlisted shares	3 Jul 17	31 Jul 22	$1.1307	-	22,585,480	-	(3,053,004)	19,532,476
Unlisted shares	28 Sep 17	31 Jul 22	$0.6631	-	7,435,432	-	(305,516)	7,129,916
Unlisted shares	26 Oct 17	31 Jul 22	$0.7071	-	414,359	-	-	414,359
Unlisted shares	7 Dec 17	31 Jul 22	$0.6169	-	6,608,851	-	-	6,608,851
Unlisted shares	23 Mar 18	31 Mar 23	$0.7620	-	36,549,336	-	(1,012,500)	35,536,836
				49,934,104	73,593,458	-	(28,833,990)	94,693,662

Note: 1. Not all shares forfeited by employees during the period have been cancelled prior to period end. The balance of forfeited shares were transferred to an employee share trust pending new employee grants.

	GRANT DATE	EXPIRY DATE	LOAN VALUE PER SHARE	NUMBER HELD AT 1 JULY 2016	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED OR FORFEITED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2017
Year ended 30 June 2017								
Unlisted shares	8 Sep 14	8 Sep 19	$0.7636	1,092,063	-	-	-	1,092,063
Unlisted shares	4 Dec 14	4 Dec 19	$0.6815	3,823,529	-	-	-	3,823,529
Unlisted shares	2 Feb 15	2 Feb 20	$0.6163	833,003	-	-	-	833,003
Unlisted shares	3 Aug 15	31 Aug 20	$1.1000	12,478,136	-	(84,999)	(1,618,946)	10,774,191
Unlisted shares	5 Aug 15	31 Aug 20	$1.1538	974,997	-	-	-	974,997
Unlisted shares	24 Aug 15	31 Aug 20	$1.1297	2,231,344	-	-	-	2,231,344
Unlisted shares	11 Nov 15	31 Aug 20	$1.0200	1,079,772	-	-	-	1,079,772
Unlisted shares	11 Nov 15	31 Aug 20	$1.0460	524,070	-	-	-	524,070
Unlisted shares	4 Dec 15	31 Aug 20	$1.2300	2,553,496	-	-	-	2,553,496
Unlisted shares	11 Aug 16	31 Jul 21	$2.0100	-	18,747,036	-	(724,119)	18,022,917
Unlisted shares	26 Sep 16	31 Jul 21	$1.9558	-	427,000	-	-	427,000
Unlisted shares	11 Oct 16	31 Jul 21	$2.0000	-	242,000	-	-	242,000
Unlisted shares	25 Oct 16	31 Jul 21	$1.9139	-	186,779	-	-	186,779
Unlisted shares	6 Dec 16	31 Jul 21	$1.5760	-	2,242,005	-	-	2,242,005
Unlisted shares	3 Jan 17	31 Jan 22	$1.3720	-	3,378,000	-	-	3,378,000
Unlisted shares	9 Feb 17	31 Jan 22	$1.2770	-	1,548,938	-	-	1,548,938
				25,590,410	26,771,758	(84,999)	(2,343,065)	49,934,104

Under the ESLS, eligible senior management are provided with non-recourse loans from the Group for the sole purpose of acquiring shares in the Group. The shares are granted upfront based on the five-day volume weighted average price and remain restricted and subject to risk of forfeiture until the end of the vesting/performance period and while the loan remains outstanding, with any unvested/unexercised shares lapsing 49 months after the first test date.

Any dividends paid on the shares are applied (on a notional after-tax basis) towards repaying the loan.

With the exception of the March 2018 grant which has a test date of 1 March, the shares issued during the current and prior periods have a common testing/vest dates with the testing/vesting dates being 1 January and 1 July each year.

The shares generally vest over three years with 20% vesting after the first testing date, 30% after the second testing date and 50% vesting after the third testing date, other than those issued to the CEO during the year ended 30 June 2015, of which 100% only vest after 36 months if the hurdles are met.

The number/proportion of shares that vest is based on the absolute Total Shareholder Return (TSR) over the period, with 50% vesting if a TSR of 5% Compound Annual Growth (CAGR) is achieved, rising to 100% vesting for achievement of a TSR CAGR of 10%. For shares issued under the plan during the year ended 30 June 2015, vesting is based on the absolute Total Shareholder Return (TSR) over the period, with 50% vesting if a TSR of 10% Compound Annual Growth (CAGR) is achieved, rising to 100% vesting for achievement of a TSR CAGR of 15%. If the hurdles are not met at the date

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of the initial test, the unvested shares are re-tested at the next test date. If any shares remain unvested after the 36-month period, they are re-tested six monthly for a further two years, at which point they will lapse if unvested.

For share options granted during the financial year (these shares are treated as options for accounting purposes) the fair value of the options granted was determined by valuation specialists, using the Monte Carlo Simulation option pricing model. The following inputs were used in the valuations:

	LTI SHARES GRANTED 3 JUL 2017			LTI SHARES GRANTED 28 SEP 2017[1]			LTI SHARES GRANTED 26 OCT 2017[1]		
	TRANCHE 1	TRANCHE 2	TRANCHE 3	TRANCHE 1	TRANCHE 2	TRANCHE 3	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of shares (treated as options for accounting)	4,517,096	6,775,644	11,292,740	1,487,086	2,230,630	3,717,716	82,872	124,308	207,180
Monte Carlo Simulation model fair value	$0.2509	$0.3177	$0.3542	$0.1695	$0.2107	$0.2314	$0.1695	$0.2143	$0.2366
Share price at grant date	$1.055	$1.055	$1.055	$0.660	$0.660	$0.660	$0.695	$0.695	$0.695
Exercise price	$1.1307	$1.1307	$1.1307	$0.6631	$0.6631	$0.6631	$0.7071	$0.7071	$0.7071
Expected volatility	45%	45%	45%	45%	45%	45%	45%	45%	45%
Expected option life	2.6yrs	2.9yrs	3.3yrs	2.6yrs	2.9yrs	3.3yrs	2.6yrs	2.9yrs	3.3yrs
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free rate	1.92%	1.92%	1.92%	2.13%	2.13%	2.13%	2.00%	2.00%	2.00%

	LTI SHARES GRANTED 7 DEC 2017[1]			LTI SHARES GRANTED 23 MAR 2018		
	TRANCHE 1	TRANCHE 2	TRANCHE 3	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of shares (treated as options for accounting)	1,321,770	1,982,655	3,304,426	7,309,867	10,964,801	18,274,668
Monte Carlo Simulation model fair value	$0.1575	$0.1967	$0.2158	$0.2185	$0.2643	$0.2944
Share price at grant date	$0.625	$0.625	$0.625	$0.770	$0.770	$0.770
Exercise price	$0.6169	$0.6169	$0.6169	$0.762	$0.762	$0.762
Expected volatility	45%	45%	45%	45%	45%	45%
Expected option life	2.6yrs	2.9yrs	3.3yrs	2.6yrs	2.9yrs	3.3yrs
Dividend yield	0%	0%	0%	0%	0%	0%
Risk-free rate	1.90%	1.90%	1.90%	2.14%	2.14%	2.14%

Note: 1. Grants to specific individuals including new starters and CEO post approval at the Annual General Meeting

There were also 16.1m shares cancelled during the period.

The expected volatility was determined based on historical volatility of the Company and of similar companies. The estimate reflects the likelihood that the volatility in financial markets over the next three to five years will be less extreme than that experienced during the global financial crisis and considers the likely stabilising impact of the capital raisings. The expected life of the share options is based on historical data and current expectations and is not necessarily reflective of exercise patterns that may eventuate.

NOTE 27 – PARENT ENTITY DISCLOSURES

Financial position

	2018 $'000	2017 $'000
Assets		
Current assets	61,961	20,288
Non-current assets	1,470,237	1,423,663
Total assets	1,532,198	1,443,951
Liabilities		
Current liabilities	2,340	2,072
Non-current liabilities	375,825	339,85
Total liabilities	378,165	341,924
Net assets	1,154,032	1,102,027
Equity		
Issued capital	1,131,761	1,130,404
Reserves	25,559	14,706
Accumulated losses	(3,288)	(43,083)
Total equity	1,154,032	1,102,027

Financial performance

	2018 $'000	2017 $'000
Profit/(Loss) for the year	32,384	4,798
Other comprehensive income	5,332	2,279
Total comprehensive income	37,716	7,077

The parent entity has lease commitments of $686,000 at 30 June 2018 (2017: $980,000).

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NOTE 28 – COMMITMENTS AND CONTINGENCIES

A. Commitments

Leasing commitments

The Group has operating leases on office space as well as equipment leases. Future minimum rentals payable under these operating leases are as follows:

	2018 $'000	2017 $'000
Within one year	3,505	3,024
After one year but not more than five years	6,107	7,310
After five years	-	-
Total minimum lease payments	9,612	10,334

Capital Commitments

The Group had $2.9m of contractual obligations for the purchase of capital equipment as at 30 June 2018 (2017: $40.8m).

B. Contingencies

Some Mayne Pharma companies are, and will likely continue to be, subject to various legal proceedings and investigations that arise from time to time, including proceedings regarding product liability, sales and marketing practices, commercial disputes, antitrust and intellectual property matters. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance and that could affect our business, financial position and reputation. While Mayne Pharma does not believe that any of these legal proceedings will have a material adverse effect on its financial position, litigation is inherently unpredictable and large judgements sometimes occur. As a consequence, Mayne Pharma may in the future incur judgements or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow.

Mayne Pharma has not made provisions for potential damage or other remedies for legal claims against it or its subsidiaries where Mayne Pharma currently believes that a payment is either not probable or cannot be reliably estimated.

Summary of significant investigations and legal proceedings brought against the Company seeking damages or other remedies

All these legal claims and allegations are being vigorously contested. No outcome or possible related amounts can be reliably estimated and as such no amounts have been provided at reporting date.

Drug pricing matters – investigations

In FY16, Mayne Pharma Inc received a subpoena from the Antitrust Division of the US Department of Justice and the Office of the Attorney General in the State of Connecticut seeking information relating to the marketing, pricing and sales of select generic products.

In May 2018, Mayne Pharma Inc received a Civil Investigative Demand from the Civil Division of the US Department of Justice, seeking similar information in connection with a False Claims Act investigation stemming from alleged anticompetitive conduct.

Mayne Pharma is fully cooperating with these investigations, which appear to be focused on the generic doxycycline hyclate delayed-release market, and to be part of a broader inquiry into industry practices.

Drug pricing matters - ligation

In FY17 and FY18, Mayne Pharma Inc was sued alongside other generic pharmaceutical companies in civil complaints alleging anticompetitive conduct in the sale of generic drugs with the specific allegations related to Mayne Pharma focused on the doxycycline hyclate delayed-release market. These cases include a complaint by the attorneys general of 45 US states, the District of Columbia and the Commonwealth of Puerto Rico, and class action lawsuits filed by direct purchasers, indirect purchasers and indirect resellers. These cases have been consolidated into multidistrict litigation pending in the Eastern District of Pennsylvania. Mayne Pharma is strongly defending the allegations made in related civil complaints.

Product liability - amiodarone

In FY17 and FY18, Mayne Pharma Inc and other pharmaceutical companies have been sued in class action complaints in California and one in Texas involving allegations relating to amiodarone. The issues involved include allegations of failure to adequately warn about risks associated with amiodarone, failure to provide the FDA-required medication guide, off-label promotion, and conspiring with the other defendants to downplay the risks of the drug.

Product liability - opioids

In FY18, Mayne Pharma Inc and more than 50 other defendants have been sued by the State of Arkansas, counties and certain cities in that State involving allegations relating to opioids. The issues involved include allegations that manufacturer defendants used multiple avenues to disseminate false and deceptive statements about opioids, negatively impacting Arkansas public health and welfare.

NOTE 29 – DIVIDENDS

No dividends were paid or declared in the year ended 30 June 2018 (2017: nil).

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Franking credit balance

	2018 $'000	2017 $'000
Opening balance	23,287	8,230
Franking credits arising from payments (net of refunds)	1,167	14,835
Franking credits that will arise from the payment / (refunds) of income tax as at the end of the financial year	(5,480)	(2,213)
Franking credits available for future reporting periods	18,974	20,852

NOTE 30 – BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the Group policy is to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139; *Financial Instruments Recognition and Measurement* in profit or loss.

No business combinations were undertaken during the year ended 30 June 2018 (2017: nil).

NOTE 31 – DEED OF CROSS GUARANTEE

As an entity subject to Class Order 2016/785, relief has been granted to Mayne Pharma International Pty Ltd (MPIPL) from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial report.

As a condition of the Class Order, the Company and MPIPL entered into a Deed of Cross Guarantee on 28 June 2010. The effect of the deed is that the Company has guaranteed to pay any deficiency in the event of winding up of its controlled entity or if they do not meet their obligations under the terms of the liabilities subject to the guarantee. The controlled entity has also given a similar guarantee if the Company is wound up or if it does not meet its obligations under the terms of loans or other liabilities subject to the guarantee.

Set out below are a Consolidated Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated retained earnings for the year ended 30 June 2018 of the closed group consisting of the Company and MPIPL.

(a) Consolidated Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in retained earnings.

	CONSOLIDATED	
	2018 $'000	2017 $'000
Continuing operations		
Sale of goods	48,686	64,688
Services revenue	10,058	10,349
License fee income	-	53
Royalties revenue	1,172	858
Revenue	**59,916**	**75,948**
Cost of sales	(33,068)	(33,154)
Gross profit	**26,848**	**42,794**
Other income	73,328	56,281
Research and development expenses	(3,525)	(4,399)
Marketing expenses and distribution expenses	(6,462)	(5,648)
Amortisation expenses	(6,056)	(6,097)
Administration expenses and other expenses	(28,731)	(25,920)
Finance costs	(15,738)	(11,496)
Impairments	(7,995)	-
Acquisition costs	-	(1,124)
Profit before income tax	**31,669**	**44,392**
Income tax (expense)/benefit	(1,521)	(9,559)
Net profit from continuing operations after income tax	**30,148**	**34,833**
Other comprehensive income for the period, net of tax	5,332	2,279
Total comprehensive income for the period attributable to owners of the parent	**35,480**	**37,112**

	2018 $'000	2017 $'000
Retained earnings at the beginning of the financial year	82,859	48,026
Transfer from reserve	7,142	-
Profit for the period	30,148	34,833
Retained earnings at the end of the financial year	**120,150**	**82,859**

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(b) Consolidated Statement of Financial Position

Set out below is a Consolidated Statement of Financial Position as at 30 June 2018 of the closed group consisting of the Company and MPIPL.

	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	58,451	22,522
Trade and other receivables	6,293	7,059
Inventories	18,994	12,835
Income tax receivable	5,564	-
Other current assets	8,293	4,331
Total current assets	**97,595**	**46,747**
Non-current assets		
Related party receivables	844,249	1,083,047
Investment in subsidiaries	587,232	332,066
Property, plant and equipment	51,996	39,462
Deferred tax assets	4,750	5,518
Intangible assets and goodwill	80,718	84,974
Total non-current assets	**1,568,945**	**1,545,067**
Total assets	**1,666,540**	**1,591,814**
Current liabilities		
Trade and other payables	8,979	10,349
Interest-bearing loans and borrowings	-	13,011
Provisions	3,362	3,664
Total current liabilities	**12,341**	**27,024**
Non-current liabilities		
Interest-bearing loans and borrowings	374,110	327,039
Provisions	1,941	1,662
Deferred tax liabilities	7,360	8,119
Total non-current liabilities	**383,411**	**336,820**
Total liabilities	**395,752**	**363,844**
Net assets	**1,270,788**	**1,227,970**
Equity		
Contributed equity	1,131,761	1,130,404
Reserves	18,877	14,707
Retained earnings/(accumulated losses)	120,150	82,859
Total equity	**1,270,788**	**1,227,970**

NOTE 32 – EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 23 July 2018, Mayne Pharma announced it completed the acquisition of generic Efudex (fluorouracil cream 5%) from Spear Pharmaceuticals, Inc. for US$20.0 million (comprising US$16.0 million in cash and US$4.0 million in Mayne Pharma equity) plus contingent payments of up to US$10.0 million. The deferred payments are contingent upon competitive dynamics in the product market over the next three years. Spear's generic Efudex net sales were US$3.0 million in the first quarter of calendar 2018.

No other matter or circumstance has arisen since the reporting date which is not otherwise reflected in this report that significantly affected or may significantly affect the operations of the Group.

NOTE 33 – NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, however they may have impacted the disclosures presented in the financial statements.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

(i) AASB 15 provides a single, principles-based five-step model to be applied to all contracts the Group has with its customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures regarding revenue are also introduced.

The Group has set up an implementation project plan and has appointed advisors to assist the Group's management in assessing the impact of AASB 15. Preliminary work performed has focused on diagnosing the Group's revenue streams against the requirements of the new standard but is not yet able to identify the specific areas within the Group which are expected to be impacted, nor is the Group able to make a quantitative determination as to the Standard's impacts to its revenue streams. The Group expects to apply AASB 15 for the first time for the financial year ended 30 June 2019.

(ii) AASB 9 will change the classification and measurement of financial instruments, introduce new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures, and introduce a new expected loss impairment model that will require more timely recognition of expected credit losses. The Group expects to apply AASB 9 for the first time for the financial year ended 30 June 2019. The Group is currently assessing the impact of AASB 9. However, the Group does not expect it will have a material impact on the Group's financial statements.

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(iii) AASB 16 Leases (effective 1 January 2019). This Standard requires lessees to account for all leases (including operating leases) in a similar way to finance leases. At commencement of a lease, the Company will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Group has disclosed $9.6m of undiscounted operating lease commitments as at 30 June 2018 (refer to Note 28). Under AASB 16, the present value of these commitments would potentially be shown as a liability on the balance sheet together with an asset representing the right to use the underlying asset during the lease term. Depreciation of the lease asset and interest on the lease liability will be recognised over the lease term. The Group has not yet begun assessing the impact of AASB 16. However, the Standard is not expected to have a material impact on financial ratios for the syndicated loan facility as the Group does not consider the size of its operating lease commitments to be material.

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DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Mayne Pharma Group Limited, we state that:

In the opinion of the Directors:

(a) The financial statements and notes of Mayne Pharma Group Limited for the financial year ended 30 June 2018 are in accordance with the Corporations Act 2001, including:

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

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

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) There are reasonable grounds to believe that the members of the Closed Group identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

(d) The financial statements and notes also comply with the International Financial Reporting Standards as disclosed in Note 1A.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board



Mr Scott Richards
Managing Director and CEO

Dated at Melbourne, Australia this 24th day of August 2018.

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Independent Auditor's Report to the Members of Mayne Pharma Group Limited

Report on the Audit of the Financial Report

Opinion

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

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date;and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Chargebacks, rebates, returns and related accruals ("gross to net sales adjustments")

Why significant	How our audit addressed the key audit matter
In respect of the Group's operations in the United States of America, distribution of products to its ultimate customer occurs in many cases through wholesale distributors. The ultimate net selling price is determined based on the contractual arrangements that the Group has with its indirect customers such as retail pharmacy chains and the ultimate patient's insurer or other payment programs, whom purchase the Group's products from the wholesale distributors. Revenue for products sold is recognised when the risks and rewards are passed upon shipment to the distributor. This requires an estimate of the net selling price at that time, taking into consideration different elements such as chargebacks, rebates, returns and related accruals (collectively known as 'gross-to-net' sales adjustments). The estimate depends on customer specific contract terms and regulations, as well as customer forecast sales mix at its weighted average sales prices, trade volumes, inventories held by the distributor and historical trend of customer product returns. The dispensing of the product to the patient (being the end users) and the final determination of the actual selling price may be several months later. This is a significant area and a key audit matter as the estimation processes involve large volumes of data processed through the contract management system and is highly judgmental, and as such we focused our audit procedures on these gross to net adjustments with particular focus on the gross accrual recorded at balance date and trade receivables (where chargebacks are recorded on a net basis). The gross accrual accounted for against revenues amounted to $143.4 million (equivalent to US$106.2 million) at reporting date. The Group's accounting policies and significant accounting estimates for this key audit matter are disclosed in Notes 9 and 15 of the financial report.	With respect to the contract management system that produced the underlying source data, we agreed a sample of signed and authorised contracts to the details in the contract management system to confirm the integrity and accuracy of the data. For each accrual we agreed the material estimates, on a sample basis, to underlying supporting documentation such as actual sales, settlements and/or reclassification between the elements of gross-to-net sales adjustments. For each of the estimated accruals, we tested the mathematical accuracy of the calculations and assessed the integrity of the data used in the calculations. We assessed the inputs used in the calculations including product returns, weighted average sales prices and inventory levels which remain unsold by the distributor, taking into account historical trends and specific circumstances at reporting date, to the underlying supporting documentation. Based on the historical data and trends our audit procedures included the following: ▸ Developed an expectation on expected gross to net accrual balances and compared this to the recorded accrual balances and where material variances were identified we obtained supporting evidence. ▸ Analysed and assessed actual claims made in previous periods to evaluate the Group's historical accuracy in estimating the gross to net sales adjustments. ▸ Agreed a sample of transactions processed in the contract management system during the period to source documents such as signed customer contracts and claim details such as chargeback rates, product details, wholesaler details. ▸ Assessed claims made subsequent to balance date and considered whether these were appropriately treated at reporting date. ▸ Analysed credit notes and payments (on a sample basis) throughout the year and post year-end, and assessed the impact to accruals recorded during the period.

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Carrying value of intangible assets including goodwill

Why significant	How our audit addressed the key audit matter
At 30 June 2018, the Group held $1,054.5 million in intangible assets including goodwill, customer contracts and relationships, product rights and intellectual property, in-process development expenditure, marketing and distribution rights and trade names. These include both finite and indefinite lived intangible assets as disclosed in Note 14 of the financial report. At a minimum, the Group performs an annual impairment assessment of indefinite lived intangible assets including finite lived intangible assets if these are considered to display indicators of impairment. These assets are assessed either on an individual asset basis or in the Cash Generating Unit ("CGUs")to which the assets belong. An impairment indicator existed at 31 December 2017 in the form of industry-wide generic pharmaceutical pricing pressures in the United States. The range of judgments and assumptions relating to revenue growth, profit margins, research and development and overhead costs, foreign exchange and discount rates used in the Group's impairment assessments, results in this area being considered a key audit matter. In respect of in-process development expenditure, the range of judgments and assumptions relating to project milestone achievement, regulatory approval processes and ongoing updates of market viability of individual projects, results in this area being considered a key audit matter. At 31 December 2017, the Group processed an impairment charge of $184.4 million across intangible assets, including goodwill. The Group performed a further impairment assessment at 30 June 2018. Note 14 of the financial report provides disclosure of the Group's impairment assessments and highlights the impact of reasonably possible changes to key assumptions as required by Australian Accounting Standards.	We assessed the Group's determination of impairment indicators and whether CGUs were appropriately determined. We tested the mathematical accuracy of the Group's value-in-use models and evaluated the assumptions and methodologies used by the Group. Where appropriate, we involved our valuation specialists to assist with the execution of these procedures. In respect of the Group's impairment assessment of CGUs containing indefinite and finite lived assets and in-process development expenditure with impairment indicators, including goodwill, our audit procedures included the following: ▸ Assessed the key judgments and estimates contained within the cash flows prepared by the Group with reference to available supporting calculations and external data (where available) including revenue growth rates, profit margins and terminal growth rates. ▸ Assessed the current year actual results in comparison to the prior year Board approved budget in order to assess forecast accuracy. ▸ Assessed the appropriateness of the discount rates for each CGU by comparing this to external market data of comparable companies. ▸ In respect of capitalised in-process development expenditure: ▸ assessed a sample of projects and their status against plan, including milestone achievement for the period; ▸ obtained and considered any regulator correspondence for the sample of projects selected; ▸ reviewed the status reports produced by the Group's R&D Investment Committee for the period; and ▸ assessed any updates made by the Group to the initial project feasibility assessments. ▸ Considered the implied earnings multiples suggested by the value-in-use models of each CGU against the earnings multiples of other comparable companies for each respective CGU. ▸ Performed sensitivity analysis in respect of the key assumptions to ascertain the extent to which changes in those assumptions would either individually or collectively be required for the intangible assets to be impaired. We also assessed the adequacy of disclosures made in the financial report as required by Australian Accounting Standards.

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Capitalisation of in-process development expenditure

Why significant	How our audit addressed the key audit matter
The Group held $102.2 million in capitalised in-process development expenditure at 30 June 2018. The Group capitalises qualifying development expenditure on the basis of its products being generic alternatives to already proven and regulator approved, in-market original medical therapies. Where these criteria are not met, the Group expenses its research and development activities. The capitalisation of development expenditure was considered a key audit matter as development activities are subject to uncertainties and judgmental assumptions as to the probability of scientific success, the timing of regulatory approval processes, as well as the ongoing future market viability of the relevant products from project initiation date to approved product launch date. Capitalised development costs are amortised once the product is available for use; normally from when regulatory approval is obtained. Refer to Note 14 of the financial report for disclosure relating to capitalised development costs.	We tested the mathematical accuracy of the Group's capitalised development expenditure model and evaluated the key assumptions and methodologies used by the Group. We performed the following procedures in respect of the development expenditure capitalised: ▸ Assessed the nature and appropriateness of the costs incurred that have been assessed by Group as directly attributable to the development activities of the relevant projects, and tested the consistency of the capitalisation approach taken across the portfolio during the year and in previous periods. ▸ Agreed a sample of costs capitalised, including salaries and overhead costs, to timesheets and other supporting documentation and assessed whether these met the capitalization criteria set out in Australian Accounting Standards. ▸ In respect of projects that are no longer considered viable, we determined whether any carrying amount had been appropriately written off, and ▸ In respect of projects that have received regulatory approval, we assessed the useful life and amortisation rate allocated to these capitalised development costs. We also assessed the adequacy of the related disclosures made in the financial report.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

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Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 37 to 43 of the directors' report for the year ended 30 June 2018.

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

Responsibilities

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

Ernst & Young

Ashley Butler
Partner
Melbourne
24 August 2018

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ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 3 September 2018.

DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS		NUMBER OF SHARES		NUMBER OF OPTION HOLDERS	NUMBER OF OPTIONS
1 to 1,000	2,198	11.1%	1,334,818	0.1%	-	-
1,001 to 5,000	5,456	27.7%	16,518,049	1.1%	-	-
5,001 to 10,000	3,666	18.6%	29,065,346	1.9%	-	-
10,001 to 100,000	7,288	37.0%	228,095,708	14.5%	10	869,000
100,001 and over	1,107	5.6%	1,295,863,858	82.5%	18	7,720,000
Total	19,715	100%	1,570,877,779	100%	28	8,589,000

Included in the above total are 612 shareholders holding less than a marketable parcel of 422 shares.

OPTIONS

There are 8,589,000 options on issue held by 28 individual option holders. Options do not carry a right to vote.

TWENTY LARGEST HOLDERS OF QUOTED ORDINARY SHARES

	SHARES	% OF TOTAL
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	335,123,100	21.3
J P MORGAN NOMINEES AUSTRALIA LIMITED	120,116,622	7.6
MR BRUCE MATHIESON AND RELATED ENTITIES	98,777,583	6.3
CITICORP NOMINEES PTY LIMITED	63,637,774	4.1
NATIONAL NOMINEES LIMITED	28,041,792	1.8
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	23,566,672	1.5
MR SCOTT RICHARDS AND RELATED ENTITIES	21,213,250	1.4
MR RICHARD SMITH AND RELATED ENTITIES	20,096,967	1.3
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	17,169,137	1.1
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	16,332,374	1.0
IVL GROUP PTY LTD	15,000,000	1.0
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	13,517,989	0.9
MR ROGER CORBETT AND RELATED ENTITIES	10,440,569	0.7
WAL ASSETS PTY LTD <THE L A WILSON PROPERTY A/C>	9,193,503	0.6
BNP PARIBAS NOMS PTY LTD <DRP>	8,292,337	0.5
MR ROGER ASTON & RELATED ENTITIES	7,140,935	0.5
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	7,033,406	0.4
MR WILLIAM HODGES AND RELATED ENTITIES	6,739,554	0.4
MR PETER PALTOGLOU & RELATED ENTITIES	6,578,748	0.4
IOOF INVESTMENT MANAGEMENT LIMITED <IPS IDPS A/C>	6,257,401	0.4

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Company who had notified the Company in accordance with Section 671B of the Corporations Act are:

Investors Mutual Limited	7.3%
Mr Bruce Mathieson and related entities	6.3%

INTELLECTUAL PROPERTY & GLOSSARY

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For further information on Mayne Pharma's products, refer to the product section of the Company's website, http://www.maynepharma.com/products/us-products/ or http://www.maynepharma.com/products/australian-products/.

GLOSSARY

ANDA – Abbreviated New Drug Application. An application to market a generic drug in the USA. Generic drug applications are called "abbreviated" because they are generally not required to include preclinical (animal) and clinical (human) data to establish safety and effectiveness. Instead, a generic applicant must scientifically demonstrate that its product is bioequivalent (i.e., performs in the same manner as the innovator drug). Once approved, an applicant may manufacture and market the generic drug product to provide a safe, effective, low cost alternative to the American public.

API - Active Pharmaceutical Ingredient. An active ingredient is any component that provides pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease, or to affect the structure or any function of the body of man or animals.

BA – Bioavailability. A measure of the fraction of a drug that enters the systemic blood circulation after oral administration.

BE – Bioequivalence. Two drug products are considered bioequivalent if they exhibit the "same" Cmax, Tmax and AUC in a properly powered pharmacokinetic study. In other words the two drug products have the plot of "drug concentration in plasma" against "time". The actual definition of "same" when applied to the pharmacokinetic parameters varies from country to country. If two drug products are bioequivalent then it is assumed that they are therapeutically equivalent. A bioequivalence study is the cornerstone of an ANDA or any generic drug application, because for the reasons given here, bioequivalence obviates the need to perform long and expensive clinical studies.

DR - Delayed Release. A drug product (typically oral) that is not intended to release the drug substance immediately after ingestion. The delay is commonly related to change of pH in the gastrointestinal tract ("enteric coating") or less commonly may relate to a specific time after ingestion when the drug is released. Enteric coating is achieved by coating with polymers that are poorly soluble in low pH media (for example gastric fluid), but are soluble in media with pH values typically found lower in the intestine.

FDA – US Food and Drug Administration. The US FDA is responsible for protecting public health by assuring the safety, efficacy and security of, amongst other things, human drugs.

NDA - New Drug Application. When the sponsor of a new drug believes that enough evidence on the drug's safety and effectiveness has been obtained to meet FDA's requirements for marketing approval, the sponsor submits to FDA a new drug application (NDA). The application must contain data from specific technical viewpoints for review, including chemistry, pharmacology, medical, biopharmaceutics, and statistics. If the NDA is approved, the product may be marketed in the United States.

OTC - Over-the-Counter pharmaceuticals. Products that are considered safe and effective by the FDA and TGA for use by the general public without a doctor's prescription.

PIV - Paragraph IV filing. A type of filing to support the approval of an ANDA submitted while the originator product is covered by a patent. The filing asserts that either the patents supporting the originator product are invalid or that they are not applicable to the product that is the subject of the ANDA.

PK – Pharmacokinetics. The study of the time course of the way the body handles drugs. There are four essential processes following a person's ingestion of a tablet or other oral dosage form, collectively known as ADME processes (Absorption of the drug from the gut; Distribution of the drug into other body tissues; Metabolism of the drug to other chemicals (metabolites) and Elimination of the drug from the body). This time course is typically followed by taking blood samples from volunteers at time intervals following swallowing a tablet and measuring the amount of drug and / or metabolites in the plasma. A plot can be constructed of plasma concentration against time from which various PK parameters such as Cmax, Tmax and AUC can be derived.

TGA – Therapeutic Goods Administration. The TGA is Australia's regulatory authority for therapeutic goods.

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Corporate information

DIRECTORS

- Mr Roger Corbett, AO (Chairman)
- Mr Scott Richards (Managing Director and CEO)
- Hon. Ron Best
- Mr Patrick Blake
- Mr Frank Condella
- Mr Bruce Mathieson
- Mr Ian Scholes
- Mr William (Phil) Hodges
- Prof Bruce Robinson
- Ms Nancy Dolan

COMPANY SECRETARY

Mr Nick Freeman

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DOMICILE AND COUNTRY OF INCORPORATION

Australia

LEGAL FORM OF ENTITY

Public company listed on the Australian Securities Exchange (MYX)

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