mayne pharma

Building our tomorrow

Annual Report 2017

What's inside

Our Business Units and Services

	US BUSINESS UNITS			REST OF WORLD
	Generic Products	**Specialty Brands**	**Contract Services**	**Mayne Pharma International**
Description	*Develops, markets and distributes generic products in the US*	*Develops, markets and distributes specialty branded products in the US*	*Provides contract pharmaceutical development, manufacturing and analytical services to third party customers globally*	*Develops, markets and distributes branded and generic products globally (excl. US)*
Strategy	• Focus on hard to develop and manufacture products • Optimise market penetration of product portfolio • Rapidly commercialise new approved products	• Develop and market clinically differentiated products with therapeutic value in dermatology • Build new specialty therapeutic platforms	• Provide contract services in niche and scientifically challenging areas • Globalise customer base • Deliver high quality and reliable contract manufacturing	• Commercialise growing Australian product portfolio • Build specialty brands and injectable franchise in Australia • Out-licence key brands in new markets
Key products & services	• Potent compounds (dofetilide, liothyronine) • Controlled substances (morphine, oxycodone, hydrocodone) • Modified-release products (budesonide, doxycycline, erythromycin) • Hormonals (oral contraceptives)	• Doryx® • Doryx® MPC • Fabior® • Sorilux®	• 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	• Urorec® • Monurol® • Astrix® • Doryx® • Kapanol® • Lozanoc® • Magnoplasm® • Oxycodone • Ephedrine

Business snapshot

● *Direct Commerical presence* ● *Indirect presence through distribution partners*

750+
Staff including 200 Scientists

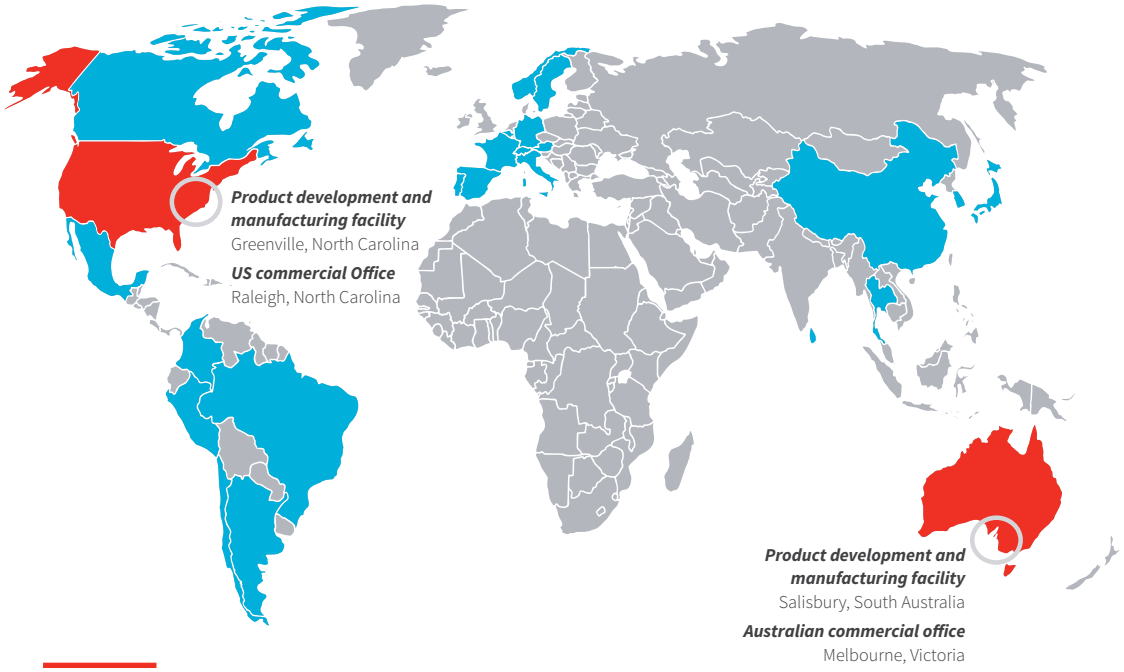
A$110m
Invested in R&D since 2012

A$145m
Capital investment since 2012

55+
Directly marketed products in the US

40+
US pipeline products

100+
Contract Service Customers



*At **Mayne Pharma** we are focused on delivering a healthier tomorrow. We believe that everyone deserves medicines that are better, safer and more affordable. That's why our people are determined to create clever, innovative products and services for our changing world.*

About Mayne Pharma

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.

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 including Doryx®, Kapanol®, Eryc®, Astrix® and Lozanoc®. Mayne Pharma has two product development and manufacturing facilities based in Salisbury, Australia and Greenville, US with expertise in the formulation of complex oral dose forms including highly potent compounds, controlled substances, modified-release products and inherently unstable compounds.

Mayne Pharma is a specialty pharma company with diversified operations across the value chain

Segments served by Mayne Pharma

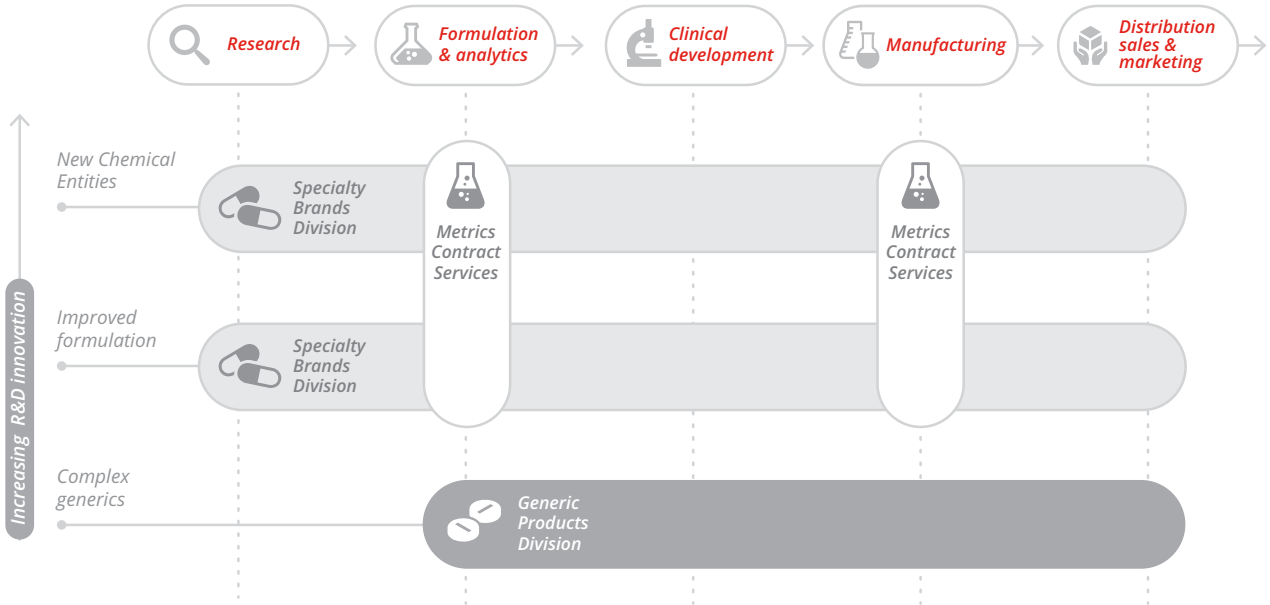
- Generic Products
- Specialty Brands
- Contract Services

Strategy

- Hard to develop and manufacture products that bring therapeutic value to patients and payers
  Complex oral dose forms, highly potent compounds, modified release products
- Quality contract services and manufacturing to third parties

Underpinned by expertise in drug delivery technology

Participation of Mayne Pharma across the pharmaceutical value chain



FY17 Business Highlights

AUGUST 2016

- Completed US$652m acquisition of 42 generic products from Teva Pharmaceutical Industries Limited (Teva) and Allergan plc
- Completed US$50m acquisition of a portfolio of dermatology foam products from GlaxoSmithKline (GSK)
- Negotiated new US$400m syndicated debt facility, providing long term stable funding for acquisitions and future growth
- Launched Doryx MPC (doxycycline hyclate delayed-release) tablets (120mg) in the US, a tetracycline-class antimicrobial indicated for the treatment of a number of infections, including adjunctive therapy for severe acne
- Dofetilide capsules, an antiarrhythmic agent to prevent irregular heartbeats became the market leader by volume share (total dofetilide prescriptions) in the US within ten weeks from launch
- HedgePath Pharmaceuticals, Inc. (HPPI) announced positive interim data from its Phase IIb cancer trial studying the effect of Mayne Pharma's patented SUBA®-Itraconazole capsules in patients with Basal Cell Carcinoma Nevus Syndrome (BCCNS), also known as Gorlin Syndrome

SEPTEMBER 2016

- Received US$19.6m from the settlement of a US patent infringement lawsuit case filed by Mayne Pharma against Forest Laboratories, LLC Namenda XR® product, relating to Mayne Pharma's Patent No. 6,194,000
- Doryx MPC Patent No. 9,446,057 granted by the US PTO, expiry 2034
- Launched ephedrine injection (25mg/1ml) in Australia for the treatment of low blood pressure which may occur during spinal anaesthesia

OCTOBER 2016

- Launched budesonide extended-release capsules (3mg) in the US as a treatment for patients with mild to moderate Crohn's disease
- Approval of caspofungin for injection in Australia indicated for the treatment of various fungal infections

NOVEMBER 2016

- Launched morphine sulfate extended-release tablets (15mg, 30mg, 60mg and 100mg) in the US – developed and manufactured in Greenville for the management of pain severe enough to require an opioid analgesic
- Launched temozolomide capsules (5mg, 20mg, 100mg, 140mg, 180mg and 250mg) in the US for the treatment of adult patients with brain tumours
- Select generic products were listed on the US Government Federal Supply Schedule for the first time
- Launched tropisetron injection (1mg/ml) in Australia for the treatment and prevention of post operative nausea and vomiting in adults
- Invested a further US$4m in HPPI to accelerate development of SUBA-Itraconazole in select cancers

DECEMBER 2016

- Internalised 60-person US dermatology sales team from a third-party contract sales organisation, to improve sales force effectiveness and attract and retain talent
- Launched linezolid injectable (2mg/ml) in Australia for the treatment of bacterial infections such as pneumonia, skin infections or blood infections
- Acquired rights to a transdermal motion sickness patch filed with the US Food and Drug Administration (FDA)
- Doryx MPC Patent No. 9,511,031 granted by the US PTO, expiry 2034

JANUARY 2017

- Commenced promotion of Fabior (tazarotene) foam (0.1%) used to treat acne and Sorilux (calcipotrene) foam (0.005%) used to treat mild to moderate plaque psoriasis in the US
- Launched amiodarone tablets (100mg) in the US indicated for life-threatening recurrent ventricular arrhythmia
- Myxazole® (clotrimazole / hydrocortisone) cream launched in Australia, indicated for the relief of redness, swelling, itching and discomfort of skin problems

FEBRUARY 2017

- In-licensed Myring®, an intra vaginal hormonal contraceptive device that has been developed to be an AB-rated generic to Merck's NuvaRing® from Mithra Pharmaceuticals, SA to commercialise in the US. NuvaRing is currently the largest contraceptive product sold in the US with QuintilesIMS sales of US$800m

- First generic to market launch of butalbital acetaminophen tablets, generic BUPAP® (50mg/300mg) in the US, for the treatment of tension headaches
- First generic to market launch of methylphenidate extended-release (ER) capsules (60mg) in the US, indicated for attention deficit hyperactivity disorder
- Entered into a strategic alliance with Australian based development platform, Formulytica, in medical dermatology, accessing their foam technology expertise to further strengthen the pipeline
- Signed co-development agreement with Douglas Pharmaceuticals (NZ) for a generic dermatology cream

MARCH 2017

- Acquired US marketing rights to the fentanyl transdermal delivery system (25 mcg/hr, 50 mcg/hr, 75 mcg/hr and 100mcg/hr) indicated for the management of pain in opioid-tolerant patients, severe enough to require daily treatment
- Type C meeting request granted by FDA concerning further guidance from FDA for HPPI's ongoing, open-label Phase 2(b) clinical trial studying the effect of SUBA-Itraconazole oral capsules in patients with Gorlin Syndrome

APRIL 2017

- Metrics Contract Services completes and opens a new 1,580 square metre (17,000 square feet) stand-alone stability storage facility, tripling the Company's previous stability storage capacity
- Received tentative approval for ethynyl estradiol/levonorgestrel, generic Quartette® tablet for the prevention of pregnancy

MAY 2017

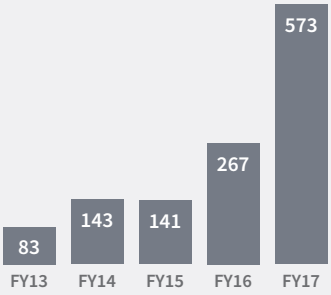
- Approval of Urorec® (silodosin) capsule in Australia indicated for relief of lower urinary tract symptoms associated with benign prostatic hyperplasia in adult men
- Metrics Contract Services supported first-ever NDA filing for a client with future manufacturing from Greenville operations
- Fluid bed spray coater (GPCG-10) qualified in development laboratories in the US to expand capabilities in multi-particulate coating technology
- Extended the supply agreement with Boryung Pharmaceutical for Astrix in Korea for an additional 20 year term

JUNE 2017

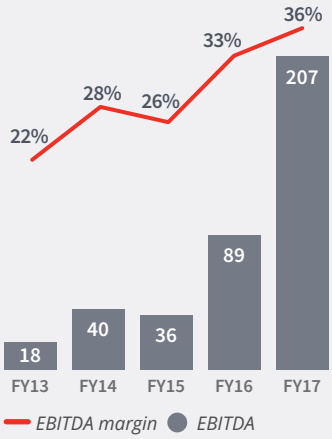
- Approval and launch of doxycycline hyclate immediate release (IR) tablets – first generic alternative to Acticlate® (75mg and 150mg) tablets, indicated for the treatment of a number of infections, including adjunctive therapy for severe acne
- Signed an exclusive global licensing agreement with Nestlé Skin Health (Galderma) to develop and commercialise trifarotene in rare skin disease indications

Key Financials

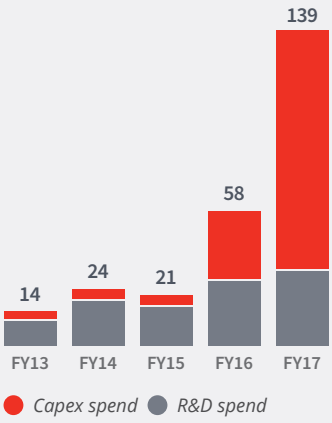
Revenue (A$m)



Underlying EBITDA[1] and margins (A$m)



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



1. Refer to results announcement for underlying adjustments to EBITDA

Chairman's Letter

Dear Fellow Shareholders,
On behalf of the Mayne Pharma Board and Management, I am pleased to present the 2017 annual report.

First and foremost, the Board and I would like to express our appreciation for your continued commitment and investment in Mayne Pharma. I recognise this year has been a particularly challenging period and I thank you for your ongoing support as we continue to execute on our strategy to turn Mayne Pharma into a leading global specialty pharmaceutical company.

Despite some exceptionally challenging market conditions following the loss of exclusivity on Doryx 50mg and 200mg tablets and the acceleration of generic price deflation in the second half, we reported the strongest results in our history. FY17 revenue grew 114% to A$573m, underlying EBITDA grew 133% to A$207m[1], reported NPAT grew 137% to A$89m and reported earnings per share grew 30% to 6.2 cents. These results were driven by product acquisitions, new product launches and continued growth in Metrics Contract Services.

Teva products acquisition

The Teva product acquisition contributed significantly to the result with sales of US$180m and EBITDA of US$90m. These results were below our original acquisition guidance and reflect a market that has faced unexpected, aggressive price competition and pressure in the second half. These industry headwinds are being equally faced by our competitors and are driven by ongoing consolidation of our customers and more rapid generic approvals through the FDA. Many of our US generic peers have also experienced declining share prices, revenue, earnings and margins over the last year as well as asset impairments from recent acquisitions. The generic price deflation reported by our Generic Products Division is consistent with the rate many of our US peers have been reporting.

This bidding intensity has been focused on the more competitive product markets including the oral contraceptive portfolio. The Generic Products Division gross profit margins were also impacted in the second half by unanticipated pricing and one-off shelf stock adjustments associated with the finalisation of bids with large buying consortiums and heightened levels of stock obsolescence.

Whilst the changing generic market dynamics have been challenging, we remain focused on executing our strategy to become a leading player in the generic industry over the long-term. The Teva product acquisition has transformed the scale and breadth of the generic business, diversifying Mayne Pharma's earnings across more products, therapeutic areas, dosage forms and complex technologies. In addition, the acquisition has created new relationships with customers and suppliers unlocking new portfolio and pipeline opportunities. During FY17, we in-licensed three products as a result of new relationships from the Teva deal, including Myring (generic Nuvaring) from Mithra, which is the largest contraceptive product sold in the US and two transdermal patches from Corium.

The transfer of 27 acquired Teva products into our own facilities or third-party contract manufacturing organisations is expected to lead to lower cost of goods and the transfer in house of ten Teva products will also improve overhead recovery and the return on capital invested to expand the Company's facilities in Australia and the United States.

Foam products acquisition

The acquisition and relaunch of two patent-protected foam products from GSK this year has driven a much stronger performance for Specialty Brands in the second half of FY17 versus the first half. Fabior (tazarotene), a topical foam used to treat acne and Sorilux (calcipotrene), a topical foam used to treat plaque psoriasis, were successfully re-launched by Mayne Pharma's Specialty Brands sales team in January 2017. Both products have outperformed the acquisition business case and have exceeded the previous peak prescription volumes under the former brand owner.

The Company remains attracted to the underlying fundamentals of the US dermatology market and has recently stepped up its investment in this space through doubling its dermatology field sales force following the successful re-launch of Fabior and Sorilux. The Company believes it can further accelerate prescription trends, improve market share and the contribution

1. Underlying result excludes certain specified expenses as outlined in the FY17 Results Presentation dated 25 August 2017.

of these patent-protected brands with a second sales team as well as any future brands that are added to the dermatology portfolio.

Financial position and cash flow

The Company ended the year with cash of A$63m and outstanding borrowings of A$340m. The Company's gearing ratio remains low at 1.3x on a net debt to EBITDA basis. The negative operating cashflow in FY17 reflected the significant investments made in working capital which were largely one off and driven by the Teva portfolio acquisition as no finished goods inventory or trade receivables were acquired. Pleasingly, the Company achieved positive net operating cash flow of A$52m in the second half of FY17 after tax, interest, working capital and one-off items.

Investing for growth

We made significant investments over the year to advance our product pipeline and expand our facilities.

The Company invested A$35m in the development of generic and branded products focusing on higher value and niche product opportunities including first-to-market generics, hard-to-manufacture products and complex products requiring clinical end point studies.

In terms of our facilities, we invested over A$100m to transform our manufacturing network in Greenville, North Carolina and Salisbury, South Australia. Both site expansions are on budget and on track to be completed on time with the Greenville site due to open in early 2018 and the Salisbury expansions due to be completed in mid-2018. These investments will 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. We see significant strategic value in controlling the supply chain where possible to reduce business continuity risk, service our customers better, protect our intellectual property and reduce cost. The new Greenville solid dose facility quadruples the Company's US manufacturing capacity and creates new analytical laboratories and formulation development suites, enabling Metrics Contract Services to offer "concept to commercialisation" solution in one location for its clients.

Roger Corbett AO, Chairman

Outlook

The Company continues to face competitive pricing pressures in the US retail generic market and is focused on executing a number of initiatives including diversifying channels to market, growing share of marketed products, extracting product cost savings from optimising our supply chain network, bringing new products to market, accelerating growth of Specialty Brands through expansion of our dermatology sales force and further business development activity.

On behalf of the Board, I would like to thank our dedicated team at Mayne Pharma for their continued commitment and hard work over the last year to deliver our strategic goals. The Board is grateful to you, our shareholders, for your continued support and in particular for the support we received during the equity raising this year. We will continue to drive organic growth and seek out value enhancing business development opportunities, while improving profitability and cashflow through an efficient operating model. We expect over time to build shareholder value through exceptional operational execution of our strategy.

Roger Corbett, AO
Chairman

Chief Executive Officer's Review

Dear Fellow Shareholders,

It is a pleasure to present the Chief Executive Officer's Review for 2017.

Mayne Pharma is focused on building its business in the largest pharma market in the world, the United States. The US significantly outweighs all other markets and over the mid to long term an aging population, increasing incidence of chronic disease and increasing demand for clinically differentiated drugs, is expected to fuel growth. In the short space of five years, Mayne Pharma has developed a meaningful direct presence in the US across three attractive business segments – contract services, generic products and specialty brands. We fully intend to continue investing and developing these businesses for the long term.

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

Our key achievements for FY17 include:

- Revenue up 114% on the prior corresponding period (pcp) to A$573m
- Reported NPAT up 137% on pcp to A$89m
- Successfully completed two major acquisitions - US$652m acquisition of 42 generic products from Teva and Allergan and US$50m acquisition of a portfolio of dermatology foam products from GSK
- Dofetilide capsules became Mayne Pharma's largest selling product and captured over 60% market share of total dofetilide prescriptions
- Launched Doryx MPC tablets in the US, a new formulation of Doryx which incorporates a modified polymer coating to further retard the release of doxycycline in the acidic environment of the stomach
- Successful defence of Doryx franchise throughout FY17 following loss of exclusivity on 50mg and 200mg tablets in May 2016
- Six new generic product launches (excluding acquired Teva portfolio) in the US including two first-to-market generics – doxycycline hyclate IR tablets (generic Acticlate) and butalbital / acetaminophen tablet (generic BUPAP®)
- Added 14 products to the US pipeline and filed 5 products with the FDA
- Expanded network of strategic alliance partners to include:
  - Corium providing access to transdermal patches;
  - Formulytica providing access to dermatology foam products;
  - Mithra providing access to women's health hormonal devices; and
  - Douglas Pharmaceuticals providing access to semi solid products requiring high containment manufacturing.
- Received US$20m settlement from litigation on one of our drug delivery patents
- HPPI announced positive interim data from a Phase IIb study in Gorlin Syndrome using Mayne Pharma's patented oral formulation of itraconazole
- Signed exclusive global licensing agreement with Nestlé Skin Health to develop and commercialise trifarotene in rare skin diseases

Operating performance

In terms of the operating performance at a segment level, the Generic Products Division grew sales 292% on FY16 to A$419m and gross profit grew 259% to A$218m. These results were driven by the acquisition of the Teva product portfolio and strong performance of the underlying business with dofetilide capsules being the key driver of growth year on year, followed by new product launches such as generic Acticlate and generic BUPAP. The generic industry is facing a challenging deflationary price cycle in 2017 which we anticipate will stabilise in the mid-term. In response to these market dynamics, the Company has identified multiple initiatives to drive growth and remain cost competitive over the mid to long term. These include diversifying channels to market, aggressively pursuing volume with existing customers, achieving cost savings from the acquired Teva portfolio, continuing to successfully execute on new product launches and further business development activity.

Scott Richards, CEO

Metrics Contract Services delivered an outstanding result outperforming industry peers with revenue up 18% on pcp to A$58m and gross profit up 22% to A$32m. The strong growth reflects growing customer demand for end to end solutions, operational efficiencies and the investments being made in Greenville in new technical equipment and manufacturing facilities.

Specialty Brands Division reported sales of A$62m and gross profit of A$59m which was down on the prior year reflecting the loss of exclusivity on Doryx 50mg and 200mg. The launch of Fabior and Sorilux in January 2017 drove the stronger performance in the second half of FY17 versus the first half with sales up 30%.

Mayne Pharma International grew sales 2% to A$34m and gross profit declined 13% to A$7m. Australian sales benefited from increased sales of Lozanoc and oxycodone but were negatively impacted by reduced injectable and Kapanol sales. Going forward, this segment will benefit in FY18 from the launch of Urorec and Monurol, two new chemical entity approvals by the TGA and also the first two approvals of this kind by Mayne Pharma.

Pipeline

The Company continues to invest in its pipeline of generic and branded products. The US pipeline contains over 40 products in various stages of development targeting markets with sales greater than US$6.5bn[2]. During the year, the Company added 14 new pipeline products targeting markets with sales greater than US$1bn[2] and filed five products with the FDA. We continue to expand the pipeline through partnerships and alliances to access new complementary products that fit with our generic or branded pipeline.

The Company is now seeing strong returns from its research and development investment over the last five years. Two recent product launches have delivered outstanding returns following regulatory approval demonstrating the financial rewards that can be achieved in the US generic industry with first-to-market generic launches. The launch of generic Tikosyn and generic Acticlate have together achieved 700% return on the investment of all development and related litigation costs by the end of FY17.

2. QuintilesIMS, MAT June 2017

The future

Mayne Pharma's strength lies in its integrated operations from product development, through to manufacturing and marketing of our products and services around the world. Having brand and generic product platforms together with contract services diversifies and de-risks our business model, enabling the Company to fully leverage growth opportunities. 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 utilises our fixed asset base associated with manufacturing and testing and will enable us to enhance our return on investment in the new Greenville facility with third party manufactured products. We believe this diversified model is a real competitive advantage over other similar sized peers.

I am looking forward to the coming year, launching many new products and executing on our key strategic initiatives. I would like to take this opportunity to thank our staff who are responsible for the Company's current success. I am confident 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

Global Leadership Group

Mayne Pharma has a leadership team with extensive industry experience

1. Scott Richards

Chief Executive Officer and Managing Director

Scott joined Mayne Pharma in February 2012 based in Adelaide, SA. In september 2017, Scott relocated to the US, Mayne Pharma's most strategically important market to oversee the next stage of growth. 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 CFO 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 with responsibility for all aspects of divisional financial management across ANZ's largest business. Prior to that, Nick was 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.

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., a leading global provider of pharmaceuticals and medical devices, 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 15 years' of varied legal experience in corporate, commercial, intellectual property (IP) and litigation law, 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. Kate has also worked for Shell International in The Hague as IP Counsel and for the University of British Columbia's technology transfer office in Vancouver as a consultant.

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, capital management and providing strategic advice across a range of contexts and market sectors. Peter is responsible for strategy, M&A, strategic alliances and capital allocation. 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 Van Breugel

Executive Vice President, Salisbury Operations

Andrew joined Mayne Pharma in January 2016 and has more than 30 years' experience in the pharmaceutical industry across Europe and Asia Pacific. Prior to joining Mayne Pharma, he was Chief Operating Officer for Medochemie with responsibility for 11 manufacturing plants. He was also Operations Director at Douglas Pharmaceuticals and Schering Plough/Merck with responsibility for key functions such as quality, manufacturing, engineering, finance and IT.

Building our tomorrow - Facilities

New solid oral dose manufacturing facility, Greenville, North Carolina

In August 2015, Mayne Pharma announced the construction of a 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 plant will more than double the operational footprint to 22,900 square metre (225,000 square feet) and creates new capacity and capability to accelerate growth.

Current commercial production is expected to migrate to the new building following completion in early 2018. 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 1bn units / year.

The facility will feature the 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 12-bar rated for organic solvent spraying. This commercial unit will have its smaller pilot-scale counterparts, a Glatt GPCG 10 and a Glatt GPCG 30, installed in the existing development facility in Greenville.

In addition, the Company is investing US$12m to repurpose the existing manufacturing facility to support the growth of Metrics Contract Services and build a new employee and visitor centre containing conference rooms, training space, cafeteria and a staff fitness centre.

Expansion of manufacturing facility, Salisbury, South Australia

In Australia, Mayne Pharma has announced 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. The construction of new and refurbished production spaces and the installation of new equipment is well underway and expected to be completed in mid 2018.

As part of the Salisbury expansion, the Company is installing a large scale Glatt GPCG Pro 300 fluid bed spray coater. 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. The investments in fluid bed processing capacity in Greenville and Salisbury are forecast to triple capacity globally.

The investments in expanded capacity and capability positions Mayne Pharma as a global leader in advanced oral drug delivery systems

New stability centre, Greenville, North Carolina

During FY17, Mayne Pharma completed a new US$3.5m 1,580 square metre (17,000 square feet) standalone stability storage facility, tripling the Company's previous storage facility. Stability testing is a critical part of the drug approval process. Testing assesses how a particular drug product — including packaging — reacts over time under the influence of temperature, humidity and light. The process determines whether any physical, chemical or microbiological changes affect the efficacy and integrity of the final product, thus ensuring that it is safe and effective, regardless of where in the world it will be supplied. Stability testing also establishes the shelf life and recommended storage conditions of a finished pharmaceutical product.

The new stability centre features several chambers covering all climatic zones of ICH (International Conference on Harmonisation) with redundant systems to prevent power disruption and data loss. The stability centre was validated and operational from March 2017.

Greenville site expansion:

US$80m new solid oral dose manufacturing facility

Site operational early 2018

Increases annual capacity from 250 million doses to over 1 billion doses

Supports MCS expected growth in analytical services, formulation development and commercial manufacturing

Building our tomorrow - Pipeline

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.

The Company invested A$35m in research and development over the year and also announced a number of new strategic alliances to expand research and development capabilities.

Generic developments

During FY17, the Company received FDA approval for generic doxycycline hyclate immediate-release tablets (75mg and 150mg), the first generic alternative to Aqua's Acticlate brand and morphine sulfate extended-release tablets (15mg, 30mg, 60mg and 100mg), a generic to MS Contin®. Both these products were developed and are being manufactured at the Company's Greenville facility in North Carolina, US.

In addition to these product, the Company also launched butalbital acetaminophen tablets (50mg/300mg), temozolomide capsules (5mg, 20mg, 100mg, 140mg, 180mg and 250mg), amiodarone tablets (100mg), budesonide extended-release capsules (3mg), methylphenidate extended-release capsules (60mg) and fentanyl transdermal delivery system (25 mcg/hr, 75 mcg/hr and 100mcg/hr).

Three of these products were first-to-market generic launches delivering immediate savings to patients and payers. First-to-market generic products are typically priced at a >50% discount to the brand list price generating significant savings to the US healthcare system.

Case study

Generic Acticlate (Doxycycline hyclate immediate-release tablet)

Acticlate (doxycycline hyclate IR) tablets are a tetracycline-class antimicrobial indicated for the treatment of a number of infections, including adjunctive therapy in severe acne. Aqua Pharmaceuticals received FDA approval for this product in July 2014.

In June 2017, on the FDA's target action date, Mayne Pharma received FDA approval for generic Acticlate tablets and was the first generic to launch into this market.

Launch of Mayne Pharma's generic Acticlate began immediately following approval with the dispatch of more than 16,000 bottles to customers in the first two weeks. Mayne Pharma achieved 100% return on investment of all development costs in the first week and after 8 weeks held 30% unit volume share of the total Acticlate market[3].

This approval demonstrates the talent of the Mayne Pharma team in developing, manufacturing and marketing high quality affordable medicines.

3. QuintilesIMS, US Weekly prescription volume, data up to week ending 11 August 2017

Strategic alliances

Formulytica, an Australian based foam specialist is providing an engine for the development of medical dermatology foam products; Douglas Pharmaceuticals, a New Zealand based pharmaceutical company is providing access to semi-solid, soft-gel and high containment products; Corium, a biopharmaceutical company provides alternate drug delivery technology in the form of transdermal patches; and Mithra, a pharmaceutical company focused on women's health provides access to hormonal devices. All these alliances are focused on expanding our pipeline into more complex development and manufacturing dosage forms.

Branded developments

FY17 was a turning point for Mayne Pharma's specialty brands business following the the launch of patent protected Doryx MPC and the acquisition of two dermatology foam products - Fabior and Sorilux from GSK. The GSK product acquisitions have strengthened Mayne Pharma's position in the US dermatology market, diversified earnings and created new opportunities for growth. Doryx MPC, which was developed in-house, incorporates a modified polymer coat designed to further retard the release of doxycycline in the acidic environment of the stomach. Fabior, Sorilux and Doryx MPC are all patent protected, differentiated products with clinical data that physicians and patients value.

In terms of research and development on the branded side, the current therapeutic focuses 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 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.

Foam is an innovative delivery system with technological barriers due to complex development, clinical challenges and the requirement for highly specialised manufacturing facilities

SUBA-Itraconazole

The Company continues to progress the commercialisation of itraconazole globally for the treatment of certain fungal conditions and as a potential treatment for cancer. 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 in order to deliver the required therapeutic blood levels.

SUBA-Itraconazole capsules are now sold in Australia, Spain and Germany as a treatment for certain fungal infections. It is also approved in Italy, Portugal, Belgium, Austria and Mexico and is expected to launch in further markets over the coming year. Mayne Pharma's itraconazole is a broad spectrum anti-fungal used to treat both superficial skin and nail infections and systemic infections of the major organs. In the US, the Company is undertaking further pharmacokinetic studies to support the NDA filing.

Whilst itraconazole is used extensively to treat fungal infections globally, the product appears to have notable anti-cancer effects. In clinical studies of patients, itraconazole administration has been associated with improved disease control in patients with advanced lung cancer, skin cancer and prostate cancer. 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.

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 prevent the development of certain cancers in humans.

During the year, HPPI announced positive interim data from a Phase IIb clinical trial in patients with a genetic form of skin cancer called Basal Cell Carcinoma Nevus Syndrome (BCCNS) – more commonly 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. These interim results suggest that SUBA-Itraconazole provides an effective and safe alternative to address the unmet medical need for non-surgical treatment. HPPI will now be undertaking further detailed analyses of the individual tumour responses from this ongoing trial to verify the robustness of SUBA-Itraconazole in reducing the target tumour burden in BCCNS patients.

Trifarotene

During the year, 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.

Foam drug delivery platform

The GSK foam product acquisition provided Mayne Pharma with access to the pharmaceutical foam technology. Foam is an innovative delivery system with technological barriers due to complex development, clinical challenges and the requirement for highly specialised manufacturing facilities. The Company has entered into long term strategic partnerships for the development and manufacture of foam products.

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 2017 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 31 to 39, 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
Ms Nancy Dolan (appointed 21 September 2016)
Mr William (Phil) Hodges
Mr Bruce Mathieson
Prof Bruce Robinson, AM
Mr Ian Scholes

Particulars of the Directors' qualifications, other listed company directorships, experience and special responsibilities are detailed on pages 27 and 28 of this report. Particulars of the qualifications and experience of the Company Secretary are detailed on page 28 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 2017 financial year are:

	BOARD		AUDIT & RISK COMMITTEE		NOMINATION COMMITTEE		REMUNERATION AND 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	11	11	-	-	1	1	3	3	-	-
Mr S Richards	11	11	-	-	-	-	3	3	-	-
Mr I Scholes	11	11	4	4	-	-	3	3	-	-
Ms N Dolan	9	9	3	3	-	-	-	-	-	-
Hon R Best	11	11	4	4	1	1	3	2	-	-
Mr B Mathieson	11	9	1	0	1	1	-	-	-	-
Mr P Hodges	11	11	-	-	-	-	-	-	1	1
Prof Bruce Robinson	11	11	-	-	-	-	-	-	1	1

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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company announced on 28 June 2016 that it had entered into an agreement to acquire 37 approved and 5 FDA filed products from Teva Pharmaceutical Industries Limited ('Teva') and Allergan plc ('Allergan') for cash consideration of US$652m. The acquisition of these products (the 'acquired Teva portfolio') was completed on 3 August 2016 and significantly transformed the scope and breadth of the Generic Products Division. The acquisition substantially increased and diversified Mayne Pharma's earnings across more products, therapeutic areas, dosage forms and complex technologies, and builds upon Mayne Pharma's expertise in modified-release, potent compounds and controlled substances.

The acquisition was funded by a fully underwritten A$601m 1-for-1.725 entitlement offer, a A$287m placement and an extension of existing debt facilities.

On 18 August 2016, the Company acquired a portfolio of on-market dermatology foam assets from GlaxoSmithKline ('GSK') for US$50.1m ('Foam Assets'). The Foam Assets include US rights to Fabior® and Sorilux®, Canadian rights to Luxiq® and Olux-E® and Mexican rights to betamethasone foam. Under the terms of the agreement Mayne Pharma acquired the approved regulatory filings, trademarks, marketing materials, select product inventory, related medical and technical data and licenses for related patents.

Both Fabior and Sorilux were re-launched in January 2017 using the existing sales team in Mayne Pharma's Specialty Brands Division.

The non-US dermatology Foam Assets will continue to be distributed by GSK in the short term and Mayne Pharma will seek to out-license these products to new partners.

These changes are discussed in the Principal Activities, Results of Operations and Likely Developments section 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 highly potent compounds, controlled substances, modified release products and inherently unstable compounds.

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 2017 financial year (FY17) 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.

				CHANGE ON PCP	
SALES AND PROFIT	NOTES	2017 $M	2016 $M	$M	%
Revenue		**572.6**	**267.3**	**305.3**	**114%**
Gross profit		**315.8**	**168.4**	**147.4**	**88%**
Gross profit %		*55.1%*	*63.0%*		
Adjusted EBITDA		206.5	88.5	118.0	133%
Adjustments	1	(2.5)	(11.6)	9.1	
Reported EBITDA		**204.0**	**76.9**	**127.1**	**165%**
Depreciation / Amortisation		(73.3)	(20.9)	(52.4)	
Reported PBIT		**130.7**	**56.0**	**74.7**	**133%**
Net Interest		(12.1)	(3.2)	(8.9)	
Reported PBT		**118.6**	**52.8**	**65.8**	**125%**
Income tax expense		(30.0)	(15.5)	(14.5)	
Reported NPAT attributable to Mayne Pharma shareholders		**88.6**	**37.4**	**51.2**	**137%**

1. Adjustments to Reported EBITDA in the full year 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); $20.2m intangible asset impairment; $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 US Department of Justice investigation and $2.9m to remove the HedgePath Pharmaceuticals Inc. (HPPI) losses attributable to members of the Company.

The non IFRS financial information is unaudited.

Review of operations

The following information is provided on a total group basis, rather than that attributable to Mayne Pharma's members and hence includes 100% of the revenues and expenses incurred by HedgePath Pharmaceuticals Inc ('HPPI') where applicable. Mayne Pharma controls 53.5% of HPPI from an accounting perspective and has consolidated HPPI in these financial statements.

The Group recorded revenue of $572.6m, up 114% on pcp and gross profit was $315.8m up 88% on pcp.

Gross profit margin as a percentage of revenue was 55.1% down from 63.0% which reflects lower average margin on the acquired Teva portfolio, the significant contribution from dofetilide which is a 50:50 profit share with the API supplier and reduced contribution from Specialty Brands which has a higher margin than Generic Products.

The reported profit before tax was $115.9m and the net profit after tax was $86.0m, up 149% on pcp.

As the majority 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 0.728 instead of the current year rate of 0.754, would have resulted in an increase to adjusted EBITDA of approximately $5m. This value excludes foreign currency gains and losses recorded by the Australian operations which largely relate to transactions between the Australian and US operations. The Australian operations recorded a foreign exchange loss in the current year of $2.8m compared to a foreign exchange gain of $4.5m in the prior period. The Group also incurred an unrealised foreign exchange loss of $0.9m in the current year relating to the restatement of deferred consideration payable in Euro for an asset acquisition.

Expenses

Gross research and development costs (expensed and capitalised) increased by $4.8m to $36.1m. Development costs of $27.8m (2016: $22.6m) was capitalised during the period as it related to qualifying products under development in accordance with Australian Accounting Standards, leaving net R&D expenses of $8.3m compared to $8.7m in the pcp.

Marketing and distribution expenses increased by $1.1m to $39.1m.

Finance costs of $12.3m include interest and line fees on the USD loan facility (facility was amended and re-stated in July 2016), plus the amortisation of related borrowing costs and the unwinding of discount associated with earn-out liabilities and deferred liabilities.

Impairments of $20.2m were recognised as a result of 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.

Administration and other expenses increased by $77.5m to $153.1m. This category includes amortisation of intangible assets which was $67.2m (2016: $16.3m) for the year, an increase of $50.9m on pcp. The increase in the current year amortisation is primarily due to the Teva and GSK asset acquisitions. This category also includes foreign exchange losses of $3.7m. Foreign exchange gains were recorded in the prior period ($4.5m) and were included in other income in the prior year. The balance of the increase in administration and other expenses relates to increased legal, supply chain and corporate costs. Administration and other expenses also include the US Department of Justice matter, Merck Noxafil patent litigation cost and transaction costs for the Teva and GSK acquisitions.

Tax

The tax expense of $29.9m comprised:

- Current period income tax expense for the year to 30 June 2017 of $44.9m;
- An increase in current year tax in respect of prior years of $0.5m; and
- A reduction in income tax expense of $15.5m relating to the movement in deferred tax assets and liabilities.

Financial position

Set out below is a summary of the financial position as at 30 June 2017 compared to the position as at 30 June 2016.

				CHANGE ON PCP	
BALANCE SHEET EXTRACT	NOTES	2017 $M	2016 $M	$M	%
Cash		63.0	47.5	15.5	33%
Receivables		232.7	92.1	140.6	153%
Inventory		106.4	38.9	67.5	174%
PP&E		189.3	84.4	104.9	124%
Intangible assets and goodwill		1,235.4	332.5	902.9	272%
Teva/Allergan product acquisition asset rights		-	876.1	(876.1)	(100%)
Other assets		88.1	54.3	33.8	62%
Total assets		**1,914.9**	**1,525.8**	**389.1**	**26%**
Interest-bearing debt		340.2	76.8	263.4	343%
Trade and other payables		154.5	112.8	41.7	37%
Other financial liabilities		41.0	19.0	22.0	116%
Other liabilities		66.8	64.9	1.9	3%
Teva/Allergan product acquisition asset obligation		-	876.1	(876.1)	(100%)
Total liabilities		**602.5**	**1,149.6**	**(547.1)**	**(48%)**
Equity		**1,312.4**	**376.2**	**936.2**	**249%**

There were a number of significant changes to the Company's balance sheet since 30 June 2016. The major changes related to the acquired Teva portfolio.

At 30 June 2016, the Company recognised 'Contract rights relating to the Teva transaction settled post year-end' (as an Other Current Asset) and a 'Settlement obligation in relation to the Teva transaction' (as a Current Payable) as the Company had entered into an agreement with Teva and Allergan for the acquired Teva portfolio for cash consideration of US$652m.

At 30 June 2016, the contract was subject to conditions which were subsequently met and settlement occurred on 3 August 2016. Following contract completion, the contract obligation was extinguished (by paying the cash amount due) and the Company de-recognised the Contracts rights asset and recognised the intangible assets acquired ($875m), the inventory acquired ($6.9m) and an amount for capital equipment ($0.7m) acquired.

On 18 August 2016, the Company acquired the Foam Assets from GSK for a total consideration of $72.9m. This amount has been recognised as an intangible asset.

The Company funded these acquisitions (and part of the resulting working capital investment) via an extension of its existing debt facility, and a fully underwritten equity raise of $601m, in the form of a 1-for-1.725 accelerated non-renounceable entitlement offer and a $287m placement.

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

Cash

Cash increased by $15.5m compared to 30 June 2016. Refer below for further commentary.

Inventory, receivables and trade payables

As a result of the Teva portfolio and Foam Asset acquisitions and GPD base business growth, the Company invested approximately $67.5m in additional inventory. Additional levels of safety stock were purchased for the acquired Teva portfolio to ensure that no stock-outs occurred in the transition to Mayne Pharma distributing the products.

With the increased level of sales from the acquired Teva portfolio and growth in the GPD base business, the level of trade receivables and other receivables increased by $140.6m to $232.7m. The level of accrued rebates and allowances (included in Trade and Other Payables) also increased as a result of the increased sales values.

Intangible assets and goodwill

Intangible assets increased by $902.9m compared to the balance at 30 June 2016. The movement comprised of:

- An increase of $988.2m for the acquired Teva portfolio, Foam Assets and various smaller acquisitions;
- An increase of $27.8m for capitalised development costs;
- A decrease of $67.2m for amortisation;
- A decrease of $20.2m for impairments; and
- A decrease of $25.7m due to foreign currency translation as a result of the AUD / USD exchange rate increasing from 0.7442 at 30 June 2016 to 0.7686 at 30 June 2017.

Property, plant & equipment

Property, plant and equipment increased by $104.9m compared to the balance at 30 June 2016. The movement comprised of:

- An increase of $115.0m for additions which includes the capital works programs and general site maintenance capital expenditure;
- A decrease of $6.5m for depreciation; and
- A decrease of $3.7m due to foreign currency translation.

The strategic investments at Salisbury, South Australia and Greenville, North Carolina are on track to be completed in 2018 to support the pipeline of products under development, the transfer of ten Teva products and commercial contract manufacturing.

Interest bearing liabilities

Interest bearing liabilities increased to $340m from $77m at 30 June 2016 to partially fund the acquisition of the acquired Teva portfolio and the Foam Assets together with funding the working capital investment to support these acquisitions.

Other financial liabilities

Other financial liabilities as at 30 June 2017 include the earn-out liabilities and deferred consideration for the Myring® distribution rights, the liothyronine acquisition and various other product acquisitions and distribution rights.

Other financial liabilities increased by $22.0m from 30 June 2016 as a result of:

- An increase of $0.8m due to the non-cash unwinding of the discount for the various earn-out liabilities;
- A decrease of $1.3m due to re-assessments of various earn-out liabilities;
- An increase of $38.2m resulting from new asset acquisitions relating to ANDAs;
- A decrease of $13.9m due to payments made; and
- A decrease relating to foreign currency translation of $1.9m.

Equity

Equity movements include the fully underwritten equity raise of $601m, in the form of a 1-for-1.725 accelerated non-renounceable entitlement offer and a $287m placement used to fund the Teva portfolio acquisition.

The equity movements include current year profit and loss and other comprehensive income of $71.1m.

Cash flow

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

	2017 $	2016 $
Operating cash flow before working capital movements	165,654	47,796
Working capital (investment) / release	(180,891)	5,708
Net Operating cash flows	(15,237)	53,504

The acquired Teva portfolio was the main reason for increased working capital investment. This represents the net impact of increased receivables, increased inventory and increased trade payables and accruals.

Net operating cash for FY17 was an outflow of $15.2m after including $57.6m of tax payments, $10.0m of net interest payments, $180.9m net working capital investment and $17.7m net inflow from one-off items.

Cash on hand at 30 June 2017 was $63.0m representing an increase of $15.5m from 30 June 2016.

The Company had bank debt of $340.0m at 30 June 2017, with significant headroom against the facility's financial covenants.

Notable cash flows during the period included:

- Payment of $866m to Teva/Allergan for the acquired Teva portfolio;
- Payment of $65m to GSK for the acquisition of the Foam Assets;
- Equity raised of $860m (net of equity raising costs) to fund the Teva portfolio acquisition;

- Proceeds from borrowings of $270m (net of fees) to partially fund the Teva portfolio and Foam Asset acquisitions and the incremental working capital requirements to support these product acquisitions;
- $35m in payments for research and development (includes expensed and capitalised);
- Receipt of $26m as a result of the patent infringement litigation settlement (included in operating cash flows);
- Earn-out and deferred settlement payments totalling $14m relating to the oxycodone, liothyronine, Myring and various other transactions; and
- $104m in capital expenditure across the Group mainly relating to the facilities upgrades.

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 FY17, the Company spent, in cash terms, $35.0m in research and development of which 79% was capitalised over the period to be amortised in the future in accordance with Australian Accounting Standards.

Mayne Pharma's development pipeline includes over 40 products targeting US markets with sales greater than US$6.5bn[1]. The Company has 19 products pending approval at the FDA with a total market value of more than US$1bn[1]. During the year, in the US, the Company added 14 products to its pipeline targeting markets with sales greater than US$1.8bn[1], filed 5 products with the FDA and received FDA approval for 4 generic products.

Recent strategic alliances have expanded the Company's research and development capabilities into more complex development and manufacturing dosage forms. Formulytica, a Melbourne based contract development organisation, is providing a platform for the development of medical dermatology foam products; Douglas Pharmaceuticals, a New Zealand based pharmaceutical company is providing access to semi-solid, soft-gel products requiring high containment manufacturing; and Corium, a specialist transdermal company, is providing access to its drug delivery technology in the form of transdermal patches.

In Australia, the Company launched three in-licensed injectable products and Myxazole® (clotrimazole/hydrocortisone cream) and received TGA approval for a new brand product Urorec® (Silodosin) capsules indicated for relief of lower urinary tract symptoms associated with benign prostatic hyperplasia in adult men. Urorec was launched in August and is being marketed by the Australian specialty sales team.

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 capsules are now sold in Australia, Spain and Germany as a treatment for certain fungal infections and have successfully captured 22% volume market share of the Australian itraconazole capsule market[2] and 32% volume market share in Spain[3]. Further country launches are expected in the coming year in Europe and South America. In the US, the Company is completing further clinical studies to support the NDA filing, and if approved, would be marketed through the US Specialty Brands business unit.

HedgePath Pharmaceuticals Inc. ('HPPI'), a partly owned subsidiary of Mayne Pharma, reported positive interim results from its ongoing Phase IIb clinical trial in patients with a genetic form of skin cancer called Basal Cell Carcinoma Nevus Syndrome ('BCCNS' or more commonly known as 'Gorlin Syndrome'). These interim results suggest that SUBA-Itraconazole provides an effective and safe alternative to address the unmet medical need for non-surgical treatment. HPPI will now be undertaking further detailed analyses of the individual tumour responses from this ongoing trial to verify the robustness of SUBA-Itraconazole in reducing the target tumour burden in BCCNS patients. The program qualified for the FDA's Orphan Drug Designation in 2016.

In June 2017, Mayne Pharma executed a global licensing agreement with Nestlé Skin Health (parent entity of leading global dermatology and skin health franchise, Galderma) to develop and commercialise a new chemical entity, trifarotene, in rare disease indications. Trifarotene is a new retinoid developed by Galderma and formulated as a topical cream which has potent keratolytic properties making it a potentially viable treatment for a number of rare skin diseases. In 2014, the FDA granted Orphan Drug Designation for trifarotene in the treatment of the skin disease congenital ichthyosis, a group of skin scaling disorders. The collaboration with Galderma highlights Mayne Pharma as a trusted partner in dermatology while accelerating the Company's clinical and market development capabilities in the management of rare diseases.

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	2017	2016	CHANGE %
Revenue	418.7	106.8	292%
Gross profit	218.3	60.8	259%
Gross profit %	52%	57%	

Nature of operations

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

FY17 performance

The GPD reporting segment's sales were $418.7m, up 292% on FY16 and gross profit was $218.3m up 259% on FY16.

In US dollar terms, sales were up 306% to US$315.6m driven by the acquired Teva portfolio and strong performance of the underlying business with

[1] IMS Health, MAT Jun 2017
[2] IMS Health, Jun 2017 quarter
[3] IMS Health, Dec 2016 quarter

dofetilide being the key driver of growth year on year up 400% to US$56m. Key new product launches were generic Acticlate (doxycycline hyclate immediate release) and generic BUPAP® (butalbital/acetaminophen tablets). Gross profit margins declined over the year, impacted by increased competition on a number of products driven by customer consolidation and increased approvals by the FDA.

Product transfers of 27 Teva products are advancing and expected to lead to improved product margins through accessing lower manufacturing costs. Annual cost savings of US$12m are expected to be generated from these product transfers by FY19.

SBD

$MILLION	2017	2016	CHANGE %
Revenue	61.9	77.8	(20%)
Gross profit	58.6	73.4	(20%)
Gross profit %	95%	94%	

Nature of operations

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

FY17 performance

The SBD reporting segment's sales were $61.9m, down 20% on FY16 and gross profit was $58.6m down 20% reflecting the loss of market exclusivity on Doryx® 50mg and 200mg in May 2016.

In US dollar terms, SBD's revenue was US$46.6m down from US$56.7m in the prior year.

The divisions performance improved in the 2HFY17 versus the 1HFY17 following the launch of Fabior and Sorilux with sales up 31% in USD terms. Fabior and Sorilux both surpassed the previous peak TRx performance achieved by the former brand owner and in the latest week of prescription data, total prescriptions written for Fabior were 1,476[4] and for Sorilux were 287[4]. Both products are tracking ahead of the acquisition business case and expected to exceed the original three-year sales guidance given at the time of the acquisition.

MCS

$MILLION	2017	2016	CHANGE %
Revenue	57.8	48.9	18%
Gross profit	32.1	26.4	22%
Gross profit %	55%	54%	

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.

FY17 performance

The MCS reporting segment's sales were $57.8m up 18% on FY16 and gross profit was $32.1m up 22% on FY16.

In US dollar terms, sales were up 22% to US$43.6m. The growth in revenue and gross profit remains well ahead of US CDMO industry growth rates of 6-7% per annum[5]. The strong financial performance reflects the increased prevalence of later stage, higher margin development work and ongoing operational efficiencies. Construction of the new solid oral dose manufacturing facility in Greenville and investments in new technical equipment has assisted MCS secure more business as well as creating a pipeline of commercial contract manufacturing business. A key highlight during the year was MCS supporting a New Drug Application (NDA) filing for a client, that if approved, would be manufactured at the Greenville facility.

The analytical laboratory efficiency program has created additional capacity and improved revenue per employee. The FY17 revenue growth has been achieved with no additional headcount added in MCS.

The committed business pipeline (next six months of signed purchase orders / statements of work) grew 10% over the year.

MPI

$MILLION	2017	2016	CHANGE %
Revenue	34.3	33.7	2%
Gross profit	6.8	7.8	(13%)
Gross profit %	20%	23%	

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.

[4] IMS Health, 4 weekly average TRx / week as at 11 August 2017
[5] Pharmsource

FY17 performance

The MPI reporting segment's sales were $34.3m up 2% and gross profit was $6.8m, down 13%.

Australian sales benefited from increased sales of Lozanoc® (SUBA-Itraconazole) and oxycodone tablets but were negatively impacted by reduced injectable and Kapanol® (morphine) sales. Rest of world sales grew 6% driven by a rebound of Astrix® (aspirin) sales in South Korea and growth of Kapanol (morphine) sales. The decline in gross profit reflects reduced one-off licensing fee income and international Kapanol royalties.

Strategy and material business risks

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	• Expansion of generics pipeline through strategic alliances (e.g. Mithra, Corium) and other business development • Create best in class R&D organisation with an array of differentiated dosage forms and clinical complexity
Specialty Brands expansion	• Category leadership in medical dermatology • R&D commitment to clinical and early stage programs • Selectively invest in relevant therapeutic areas – infectious disease, oncology
Leverage and diversify drug delivery platforms	• Continued investment in core drug delivery capabilities • Extension into complementary drug delivery platforms • Build deeper value proposition for Metrics Contract Services platform
Commercial execution	• Multichannel product distribution strategy to diversify earnings (specialty, government, telesales) • Expanding prescriber and patient reach • Multifaceted marketing campaigns driving sales force effectiveness
Operational excellence	• Dual site capacity expansion nearing completion in Greenville (NC) and Salisbury (SA) to improve product margins, quality and customer service • Optimise manufacturing network to drive cost efficiencies • Develop organisational competency in Lean manufacturing systems and supply chain excellence

Material business risks

The Company maintains a risk register and the material 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 The under development projects capitalised at 30 June 2017 was $71m covering 41 projects	• 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
Other product development - HPPI	• Application of SUBA-itraconazole in Gorlin's Syndrome cancer fails to meet underlying valuation assumptions, including risk-adjusted assessments of expected clinical trial program outcomes, resulting in full or partial write-off of investment in HPPI • The carrying value of the investment in HPPI plus the value of warrants held at 30 June 2017 was $27.0m	• Recruitment of experienced regulatory personnel • Input from US FDA before and during the development process • Active engagement with Gorlin's Syndrome Patient Association • Engagement with independent regulatory and quality experts
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

RISK	NATURE OF THE RISK	ACTIONS / PLANS TO MITIGATE
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 and quality 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
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	• Inability to gain regulatory approval for new facilities • 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, diverts management attention and do 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 System have defined policies, procedures and work practices for the elimination or mitigation of EHS hazards and risks
Information technology	• 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

Whilst Generic Products is facing competitive pricing pressure in the retail channel, the Company is focused on a number of initiatives to offset these headwinds, including diversifying its channels to market into government and specialty pharmacy, pursuing new market share opportunities with the retail customer base, extracting US$12m of annual product cost savings from transferring the Teva products into new manufacturing sites by FY19, new product launches and further business development activity.

The Company's three other reporting segments, Specialty Brands, Metrics Contract Services and Mayne Pharma International are expected to grow strongly in FY18 on a constant currency basis driven by the key branded franchises (Doryx, Fabior and Sorilux), the pipeline of committed business for Metrics Contract Services and other product launches.

DIVIDENDS

The Directors have not declared an interim or final dividend for the 2017 financial year.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

No 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.

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 the Salvation Army Advisory Board.

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 27 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 26 July 2006

The Hon Ron Best is a highly respected former member of the Victorian Parliament (1988 to 2002), having held a number of 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.

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. Ms Dolan is a member of the Professional Standards Council for The Salvation Army and a member of the Advisory Committee for Salvos Legal. 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 University of Sydney Medical School and on the Advisory Board for the Salvation Army (Eastern Territory).

Ms Dolan is a member of the Audit & Risk 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.

Mr Mathieson is a member of the Nomination Committee and was a member of the Audit & Risk Committee for part of the period.

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.

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. 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.

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 25 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.

Mr Mark Cansdale, BEc, CA was Company Secretary until 24 May 2017.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

The relevant interest of each Director in the share capital and options 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	NUMBER OF OPTIONS OVER ORDINARY SHARES
Mr R Corbett	10,440,569	-	-
Mr S Richards	16,868,564	8,619,030	-
Hon R Best	1,587,217	-	-
Ms N Dolan	74,500	-	-
Mr P Hodges	6,739,554	-	-
Prof B Robinson	634,895	-	-
Mr B Mathieson	90,777,683	-	-
Mr I Scholes	2,158,636	-	-

UNISSUED SHARES UNDER OPTION

As at the date of this Directors' Report there were 15,954,000 unissued ordinary shares under option (15,954,000 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	4,295,000
25 January 2013	26 January 2019	$0.2184	2,449,000[1]
1 July 2013	1 July 2019	$0.3184	500,000
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	600,000
19 August 2014	19 June 2019	$0.7701	600,000
19 August 2014	30 June 2019	$0.8188	700,000
19 August 2014	2 July 2019	$0.8109	400,000
19 August 2014	1 August 2019	$0.7437	200,000
19 August 2014	28 August 2019	$0.7682	600,000
29 January 2015	17 December 2019	$0.6447	600,000
29 January 2015	1 February 2020	$0.5347	2,690,000
Total			15,954,000

1. 100,000 options were forfeited during the period and are excluded from the outstanding options.

The exercise price of all options was reduced by 9.43 cents effective 22 July 2016 under ASX Listing Rule 6.22 following the 1:1.725 non-renounceable rights issue announced in June 2016.

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 15,406,000 fully paid ordinary shares in Mayne Pharma Group Limited at a weighted average exercise price of $0.2078 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:

	2017 $	2016 $
Taxation services	202,000	140,930
Acquisition accounting services	-	49,600
Other assurance	32,500	31,025
Total	234,500	221,555

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 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 connection with 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, 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 (for an unspecified amount). 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 our 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 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.

Mayne Pharma recently reviewed and updated its existing processes and procedures for the engagement of waste transporters, and completion of waste transport certificates in South Australia, after receiving a warning letter from the EPA regarding alleged breaches of an EPA licence condition relating to the transportation of certain listed waste. The Company considers this matter has now been resolved. No other alleged or actual environmental breaches have been notified by the Environment Protection Authority in South Australia, Australia or by any other equivalent Australian state or foreign government agency in relation to Mayne Pharma's Australian or US operations for the year ended 30 June 2017.

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 hundred 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, 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 2017-2018 and 2018-2019 as a result of 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 financial year from CRI to Ernst & Young.

The Auditor's Independence Declaration has been received from EY and is included on page 40 of this report.

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.

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
- Ms Nancy Dolan – Independent Non-Executive Director (appointed 21 September 2016)
- 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 Mark Cansdale – Group CFO and Company Secretary (resigned as Group CFO 17 March 2017 and resigned as Company Secretary 24 May 2017).
- Mr Stefan Cross – Chief Commercial Officer (effective from 1 January 2017, previously President of Mayne Pharma USA)
- Dr Ilana Stancovski – Chief Scientific Officer
- Ms Kate Rintoul – Executive Vice President and General Counsel
- Mr Eric Evans – Chief Financial Officer of 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 – Executive Vice President Global Operational Excellence
- Mr John Ross - President of Mayne Pharma USA (appointed to the role 1 January 2017)
- Mr Nick Freeman - Group CFO and Company Secretary (commenced 22 May 2017, appointed Company Secretary 24 May 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 Director of People and Culture 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 Director of People and Culture as well as specialist advice from external remuneration consultants. The RPC continued to engage independent remuneration consultants 3 Degrees Consulting Pty Limited ('3dc') during the year.

The fees paid to 3dc for the remuneration advice were $58,000 (2016: $85,000) which included remuneration recommendations as defined under the *Corporations Act 2001*.

The RPC is satisfied that the advice received from 3dc was free from undue influence from the KMP to whom the recommendations may have related as 3dc were engaged by, and reported directly to, the Chair of the RPC.

Remuneration Report approval at the 2016 Annual General Meeting

The FY16 Remuneration Report received strong shareholder support at the 2016 AGM with a vote of 94% 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 a 91% vote 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 in the ASX 151-200. 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, bonuses 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 amongst the companies comprising the ASX151-200. The CEO's fixed remuneration during the period was $900,000. The CEO's remuneration is under review pending his relocation to the US.

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, 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.

The annual fees for the Chairman and other Non-Executive Directors were reviewed effective 1 July 2017 and the Directors resolved to make no change.

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.

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.

Effective 1 July 2014, and as approved by shareholders at the 2014 Annual General Meeting, the Board removed the entitlement to an STI for the CEO and Group CFO & Company Secretary and replaced it with an amended LTI based on annual grants under the new Executive Share Loan Scheme ('ESLS'). Following a further review (from the perspective of both the Company and senior executives), the Board decided to expand the ESLS to all KMP and other select senior executives effective 1 July 2015, 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 test dates for the ESLS issues made since 1 July 2015 have been set as 1 July each year. For previous issues the testing dates were based on the anniversary of the grant date. This provides 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 able to be 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 at this time given the uncertain timing of product approvals. The Board took advice from 3dc on the appropriate TSR targets for the issues made since 1 July 2015. Given this, the Board set the TSR target range at a CAGR of 5% to 10% for LTI issues made since 1 July 2015.

The Board considered performance measures other than TSR however concluded these were not appropriate at this time. 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 2017:

	SHORT-TERM BENEFITS					POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS				
	DIRECTORS' FEES $	SALARY $	ANNUAL LEAVE $	BONUS $	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 receives 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 as a result of 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.

The following table discloses KMP remuneration during the year ended 30 June 2016:

	SHORT-TERM BENEFITS					POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS				
	DIRECTORS' FEES $	SALARY $	ANNUAL LEAVE $	BONUS[1] $	OTHER BENEFITS[2] $	SUPER-ANNUATION $	OTHER[3] $	OPTIONS $	LTI SHARES $	TOTAL $	PROPORTION RELATED TO PERFORMANCE %
Non-Executive Directors											
Mr R Corbett	250,000	-	-	-	-	23,750	-	-	-	273,750	-
Hon R Best	95,583	-	-	-	-	46,767	-	-	-	142,350	-
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	-	803,127	60,052	-	-	19,308	19,517	403,257	443,875	1,749,136	48.4
Other KMP											
Mr M Cansdale	-	387,435	35,053	-	26,194	19,308	7,449	-	227,432	702,871	32.4
Mr S Cross	-	535,383	32,968	-	119,395	36,744	4,275	131,258	169,914	1,029,937	29.2
Dr I Stancovski	-	332,992	27,730	-	-	-	9,012	-	149,017	518,751	28.7
Ms K Rintoul[4]	-	295,301	23,343	53,560	-	19,308	4,960	38,131	90,087	524,690	34.6
Mr E Evans[5]	-	421,860	33,120	-	16,162	5,652	-	-	131,487	608,281	21.6
Mr P Paltoglou[6]	-	337,658	26,923	-	9,111	17,011	-	-	187,505	578,208	32.4
Ms L Pendlebury[7]	-	140,000	12,307	-	-	14,102	-	-	48,155	214,564	22.4
Mr A Van Breugel[8]	-	129,164	10,577	-	29,991	10,836	-	-	-	180,568	-
Total	855,583	3,382,920	262,073	53,560	200,853	249,836	45,213	572,645	1,447,472	7,070,156	

1. Bonuses are accrued when specified personal and/or corporate parameters are met.
2. Other benefits include car lease payments, rental allowances and medical related payments. Mr Cross also receives return flights to Australia and other typical expat benefits.
3. 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.
4. Ms Rintoul was considered to be KMP from 1 July 2015.
5. Mr Evans commenced with the Group on 5 August 2015.
6. Mr Paltoglou commenced with the Group 22 August 2015.
7. Ms Pendlebury commenced with the Group (as a full time employee) 11 November 2015.
8. Mr Van Breugel commenced with the Group 15 January 2016.

6. VALUE OF EQUITY INTRUMENTS GRANTED TO KMP

Options awarded, vested and lapsed

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

	GRANT DATE	NUMBER HELD AT 1 JULY 2016	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR[5]	NUMBER LAPSED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2017	NUMBER VESTED AT 30 JUNE 2017	VALUE OF OPTIONS AT GRANT DATE $	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]	1,008,794
Mr S Cross	25 Jan 13	800,000	-	-	-	800,000	800,000	172,960[2]	72,372
Mr S Cross	21 Apr 14	1,000,000	-	-	-	1,000,000	500,000	391,710[2]	108,233
Ms K Rintoul	2 Jul 13	800,000	-	800,000	-	-	-	204,590[3]	59,774
Mr J Ross	1 May 14	1,000,000	-	-	-	1,000,000	500,000	380,420[4]	60,866[4]
		11,100,000	-	8,300,000	-	2,800,000	1,800,000	3,699,230	1,310,040

1. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 28 June 2016 to fund the Teva portfolio acquisition, the exercise price changed in accordance with ASX Listing Rule 6.22. As a result of a previous underwritten pro-rata accelerated non-renounceable entitlement offer announced on 10 February 2015 to fund the US Doryx acquisition, the exercise price changed in accordance with ASX Listing Rule 6.22 and the hurdle prices of unquoted options issued to the Mr Richards were reduced in accordance with a resolution passed at the 2013 AGM. The fair value of the options prior to the change were as follows: tranche one $0.560, tranche two $0.537, tranche three $0.506 per option and the fair value of the options after the change were as follows: tranche one $0.577, tranche two $0.554, tranche three $0.533 per option. At grant date the total value of the options was $940,000. This value was increased by $740,000 as a result of the previous hurdle price changes. The value further increased as a result of the 2015 exercise price and hurdle changes by $162,300. The value was increased by a further $707,250 as a result of the most recent exercise price change.
2. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 28 June 2016 to fund the Teva portfolio acquisition, the exercise price of unquoted options issued to Mr Cross were reduced by $0.0943 on 22 July 2016 in accordance with ASX Listing Rule 6.22. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 10 February 2015 to fund the US Doryx acquisition, the exercise price of unquoted options issued to Mr Cross were reduced by $0.0173 on 11 March 2015 in accordance with ASX Listing Rule 6.22. At the grant dates the total value of the options was $434,100. This value was increased by $13,550 as a result of the exercise price change in March 2015. The value was increased by a further $121,370 as a result of the most recent exercise price change.
3. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 28 June 2016 to fund the Teva portfolio acquisition, the exercise price of unquoted options issued to Ms Rintoul were reduced by $0.0943 on 22 July 2016 in accordance with ASX Listing Rule 6.22. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 10 February 2015 to fund the US Doryx acquisition, the exercise price of unquoted options issued to Ms Rintoul were reduced by $0.0173 on 11 March 2015 in accordance with ASX Listing Rule 6.22. At the grant dates the total value of the options was $155,230. This value was increased by $8,860 as a result of the exercise price change in March 2015. The value was increased by a further $40,500 as a result of the most recent exercise price change.
4. Mr Ross is considered to be KMP effective from 1 January 2017. The value of compensation relates to the period from 1 January 2017 to 30 June 2017. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 28 June 2016 to fund the Teva portfolio acquisition, the exercise price of unquoted options issued to Mr Ross were reduced by $0.0943 on 22 July 2016 in accordance with ASX Listing Rule 6.22. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 10 February 2015 to fund the US Doryx acquisition, the exercise price of unquoted options issued to Mr Ross were reduced by $0.0173 on 11 March 2015 in accordance with ASX Listing Rule 6.22. At the grant dates the total value of the options was $303,400. This value was increased by $4,260 as a result of the exercise price change in March 2015. The value was increased by a further $72,760 as a result of the most recent exercise price change.
5. The fair values of KMP options exercised in the period are $8,523,500 for Mr Richards and $990,490 for Ms Rintoul. Fair values have been calculated as the difference between exercise prices of options granted to KMP and Closing ASX share prices of the Company at the date preceding the exercise date.

	GRANT DATE	NUMBER HELD AT 1 JULY 2015	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2016	NUMBER VESTED AT 30 JUNE 2016	VALUE OF OPTIONS AT GRANT DATE $	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2016									
Mr S Richards	13 Feb 12	7,500,000	-	-	-	7,500,000	7,500,000	1,842,300[1]	403,257
Mr S Cross	25 Jan 13	800,000	-	-	-	800,000	300,000	110,800[2]	27,197
Mr S Cross	21 Apr 14	1,000,000	-	-	-	1,000,000	200,000	336,850[2]	104,061
Ms K Rintoul	2 Jul 13	800,000	-	-	-	800,000	300,000	164,090	38,131
		10,100,000	-	-	-	10,100,000	8,300,000	2,454,040	572,645

1. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 10 February 2015 to fund the US Doryx acquisition, the exercise price changed in accordance with ASX Listing Rule 6.22 and the hurdle prices of unquoted options issued to the Mr Richards were reduced in accordance with a resolution passed at the 2013 AGM. The fair value of the options prior to the change were as follows: tranche one $0.560, tranche two $0.537, tranche three $0.506 per option and the fair value of the options after the change were as follows: tranche one $0.577, tranche two $0.554, tranche three $0.533 per option. At grant date the total value of the options was $940,000. This value was increased by $740,000 as a result of the previous hurdle price changes. The value further increased as a result of the 2015 exercise price and hurdle changes by $162,300.
2. As a result of the underwritten pro-rata accelerated non-renounceable entitlement offer announced on 10 February 2015 to fund the US Doryx acquisition, the exercise price of unquoted options issued to Mr Cross were reduced by $0.0173 on 11 March 2015 in accordance with ASX Listing Rule 6.22. At the grant dates the total value of the options was $434,100. This value was increased by $13,550 as a result of the exercise price change in March 2015.

No other KMP held options during FY17 or FY16.

Chief Executive Officer Share Option Plan ('CEOSOP')

As noted above, a share option plan was used historically where the CEO could be issued with options over the ordinary shares of the Company. Shareholders approved the plan at the Extraordinary General Meeting held on 27 January 2012. The options, issued for nil consideration, were issued in accordance with guidelines established by the Directors.

Each CEO share option converts to one ordinary share in the Company upon exercise. The options carry neither rights to dividends nor voting. Options may be exercised at any time from the date of vesting to seven years after the Grant Date (i.e. 13 February 2019) subject to the terms and conditions outlined in the plan, including Share Price hurdles ranging from $0.74 to $1.19, Share Gateway conditions applied.

The options were issued in three tranches:

	NUMBER OF OPTIONS	GRANT DATE	VESTING DATE
Tranche 1	1,500,000	13 February 2012	13 February 2015
Tranche 2	2,500,000	13 February 2012	13 February 2015
Tranche 3	3,500,000	13 February 2012	13 February 2016

	2017 NUMBER OF OPTIONS	2017 WEIGHTED AVERAGE EXERCISE PRICE $	2016 NUMBER OF OPTIONS	2016 WEIGHTED AVERAGE ERERCISE PRICE $
Balance at beginning of year	7,500,000	0.2435	7,500,000	0.2435
Exercised during the year	7,500,000	0.1492[1]	-	-
Balance at end of year	-	-	7,500,000	0.2435

1. The exercise price of the CEOSOP options were reduced by 9.43 cents each effective 22 July 2016 as a result of the application of ASX Listing Rule 6.22 following the Company's entitlement offer announced in June 2016.

There were no option issues under the CEOSOP during the year (2016: nil).

Option modification

Following the issue of shares under an underwritten pro-rata accelerated non-renounceable entitlement offer of new ordinary shares, as announced in June 2016, the exercise price was changed in accordance with ASX Listing Rule 6.22 with the exercise price reduced by 9.43 cents each with effect from 22 July 2016.

As all tranches had vested and were exercisable at the time of the exercise price change, the change in the intrinsic value was considered to be equal to the change in the exercise price (i.e. change $0.0943 cents per option).

The modification of the vested options resulted in additional expense of $707,250 which was expensed in the current year.

LTI Shares

As noted above, under the new 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 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 recognized in the financial statements.

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

	GRANT DATE	NUMBER HELD AT 1 JULY 2016	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED OR FOFEITED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2017	NUMBER VESTED AT 30 JUNE 2017	VALUE OF OPTIONS[1] AT GRANT DATE $	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2017									
Mr R Corbett	-	-	-	-	-	-	-	-	-
Mr S Richards	4 Dec 14	3,823,529	-	-	-	3,823,529	-	845,000	169,000
Mr S Richards	4 Dec 15	2,553,496	-	-	-	2,553,496	510,699	1,237,169	480,044
Mr S Richards	6 Dec 16	-	2,242,005[2]	-	-	2,242,005	-	949,815	182,187
Hon R Best	-	-	-	-	-	-	-	-	-
Ms N Dolan	-	-	-	-	-	-	-	-	-
Mr B Mathieson	-	-	-	-	-	-	-	-	-
Mr P Hodges	-	-	-	-	-	-	-	-	-
Prof B Robinson	-	-	-	-	-	-	-	-	-
Mr I Scholes	-	-	-	-	-	-	-	-	-
Mr M Cansdale	8 Sep 14	1,092,063	-	-	-	1,092,063	546,032	344,000	219,406
Mr M Cansdale	3 Aug 15	1,173,682	-	-	(938,946)	234,736	234,736	518,885	(68,494)[5]
Mr M Cansdale	11 Aug 16	-	676,119[3]	-	(676,119)	-	-	463,209	-
Mr S Cross	3 Aug 15	1,257,153	-	-	-	1,257,153	251,431	555,787	186,804
Mr S Cross	11 Aug 16	-	715,418[3]	-	-	715,418	-	490,133	147,923
Dr I Stancovski	2 Feb 15	833,003	-	-	-	833,003	416,502	210,000	42,000
Dr I Stancovski	3 Aug 15	791,789	-	-	-	791,789	158,358	350,050	117,654
Dr I Stancovski	11 Aug 16	-	584,979[3]	-	-	584,979	-	400,769	120,953
Ms K Rintoul	3 Aug 15	666,533	-	-	-	666,533	133,307	294,674	99,042
Ms K Rintoul	11 Aug 16	-	516,017[3]	-	-	516,017	-	353,523	106,694
Mr E Evans	5 Aug 15	974,997	-	-	-	974,997	194,999	432,996	145,432
Mr E Evans	11 Aug 16	-	556,600[3]	-	-	556,600	-	381,327	115,085
Mr P Paltoglou	24 Aug 15	2,231,344	-	-	-	2,231,344	446,269	633,032	220,062
Mr P Paltoglou	11 Aug 16	-	719,413[3]	-	-	719,413	-	492,870	148,749
Ms L Pendlebury	11 Nov 15	524,070	-	-	-	524,070	104,814	200,771	75,761
Ms L Pendlebury	11 Aug 16	-	298,291[3]	-	-	298,291	-	204,359	61,676
Mr A Van Breugel	11 Aug 16	-	370,617[3]	-	-	370,617	-	253,910	76,630
Mr J Ross	5 Aug 15	908,131	-	-	-	908,131	181,626	401,485	67,471
Mr J Ross	11 Aug 16	-	498,004[3]	-	-	498,004	-	341,182	51,485
Mr J Ross	25 Oct 16	-	186,779[4]	-	-	186,779	-	92,897	10,717
Mr N Freeman	-	-	-	-	-	-	-	-	-
		16,829,790	7,364,242	-	(1,615,065)	22,578,967	3,178,773	10,447,843	2,776,281

1. For accounting purposes, the ESLS share grants are treated as options.
2. The grant (as approved at the 2016 AGM) was issued with an exercise price of $1.5760 and have an expiry date of 31 July 2021.
3. Grants have an exercise price of $2.0100 and an expiry date of 31 July 2021.
4. Grant has an exercise price of $1.9139 and an expiry date of 31 July 2021.
5. The value of options included in compensation has been adjusted for value of forfeitures.

	GRANT DATE	NUMBER HELD AT 1 JULY 2015	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2016	NUMBER VESTED AT 30 JUNE 2016	VALUE OF OPTIONS[1] AT GRANT DATE $	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2016									
Mr R Corbett	-	-	-	-	-	-	-	-	-
Mr S Richards	4 Dec 14	3,823,529	-	-	-	3,823,529	-	845,000	169,000
Mr S Richards	4 Dec 15	-	2,553,496	-	-	2,553,496	-	1,237,169	274,875
Hon R Best	-	-	-	-	-	-	-	-	-
Mr B Mathieson	-	-	-	-	-	-	-	-	-
Mr I Scholes	-	-	-	-	-	-	-	-	-
Mr P Hodges	-	-	-	-	-	-	-	-	-
Prof B Robinson	-	-	-	-	-	-	-	-	-
Mr M Cansdale	8 Sep 14	1,092,063	-	-	-	1,092,063	218,413	344,000	68,800
Mr M Cansdale	3 Aug 15	-	1,173,682	-	-	1,173,682	-	518,885	158,632
Mr S Cross	3 Aug 15	-	1,257,153	-	-	1,257,153	-	555,787	169,914
Dr I Stancovski	2 Feb 15	833,003	-	-	-	833,003	166,601	210,000	42,000
Dr I Stancovski	3 Aug 15	-	791,789	-	-	791,789	-	350,050	107,017
Ms K Rintoul	3 Aug 15	-	666,533	-	-	666,533	-	294,674	90,087
Mr E Evans	5 Aug 15	-	974,997	-	-	974,997	-	432,996	131,487
Mr P Paltoglou	24 Aug 15	-	2,231,344	-	-	2,231,344	-	633,032	187,505
Ms L Pendlebury	11 Nov 15	-	524,070	-	-	524,070	-	200,771	48,155
Mr A Van Breugel	-	-	-	-	-	-	-	-	-
		5,748,595	10,173,064	-	-	15,921,659	385,014	5,622,364	1,447,472

1. For accounting purposes, the ESLS share grants are treated as options.

7. OPTIONS AND SHARES GRANTED SUBSEQUENT TO REPORTING DATE

No options were issued to KMP subsequent to report date.

The following restricted shares were issued subsequent to report date to KMP in accordance with the terms of the ESLS:

	GRANT DATE	NUMBER OF SHARES ISSUED	EXERCISE PRICE / LOAN VALUE $	EXPIRY DATE
Mr S Cross	3 July 2017	1,297,861	1.1307	31 July 2022
Dr I Stancovski	3 July 2017	1,169,879	1.1307	31 July 2022
Ms K Rintoul	3 July 2017	1,031,965	1.1307	31 July 2022
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
Ms L Pendlebury	3 July 2017	530,259	1.1307	31 July 2022
Mr A Van Breugel	3 July 2017	658,831	1.1307	31 July 2022
Mr J Ross	3 July 2017	1,197,845	1.1307	31 July 2022
Mr N Freeman	3 July 2017	2,124,415	1.1307	31 July 2022

1. Mr Evans resigned 18 August 2017 and hence the above ESLS grant was subsequently forfeited.

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 2017 was as follows.

	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 FY16 and FY17 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 2015	RECEIVED DURING THE YEAR ON EXERCISE OF OPTIONS AND / OR LTI SHARES GRANTED	OTHER CHANGES DURING THE YEAR	HELD AT 30 JUNE 2016	RECEIVED DURING THE YEAR ON EXERCISE OF OPTIONS AND / OR LTI SHARES GRANTED	OTHER CHANGES DURING THE YEAR	HELD AT 30 JUNE 2017
Directors	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
Mr R Corbett	**6,510,542**	-	-	**6,510,542**	-	3,930,027	**10,440,569**
Mr S Richards	**7,413,896**	2,553,496	-	**9,967,392**	9,742,005	5,778,197	**25,487,594**
Hon R Best	**2,492,338**	-	68,000	**2,560,338**	-	(973,121)	**1,587,217**
Ms N Dolan	**-**	-	-	**-**	-	74,500	**74,500**
Mr B Mathieson	**56,463,080**	-	680,000	**57,143,080**	-	33,634,503	**90,777,583**
Mr I Scholes	**1,303,174**	-	-	**1,303,174**	-	855,462	**2,158,636**
Mr P Hodges	**6,839,667**	-	-	**6,839,667**	-	(100,113)	**6,739,554**
Prof B Robinson	**257,971**	-	-	**257,971**	-	376,924	**634,895**
	81,280,668	2,553,496	748,000	**84,582,164**	9,742,005	43,576,379	**137,900,548**
Other KMP							
Mr M Cansdale	**1,706,185**	1,173,682	-	**2,879,867**	676,119	(1,596,909)	**1,959,077**
Mr S Cross	**200,000**	1,257,153	-	**1,457,153**	715,418	682,715	**2,855,286**
Dr I Stancovski	**873,003**	791,789	-	**1,664,792**	584,979	214,436	**2,464,207**
Ms K Rintoul	**-**	666,533	-	**666,533**	1,316,017	(800,000)	**1,182,550**
Mr E Evans	**-**	974,997	-	**974,997**	556,600	100,000	**1,631,597**
Mr P Paltoglou	**-**	2,231,344	374,000	**2,605,344**	719,413	1,581,359	**4,906,116**
Ms L Pendlebury	**287,697**	524,070	-	**811,767**	298,291	350,999	**1,461,057**
Mr A Van Breugel	**-**	-	-	**-**	370,617	-	**370,617**
Mr J Ross	**-**	908,131	-	**908,131**	684,783	100,003	**1,692,917**
Mr N Freeman	**-**	-	-	**-**	-	-	**-**
	3,066,885	8,527,699	374,000	**11,968,584**	5,922,237	632,603	**18,523,424**
	84,347,553	11,081,195	1,122,000	**96,550,748**	15,664,242	44,208,982	**156,423,972**

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 130% 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.

Other executive KMP are subject to 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 70% and 110% of fixed remuneration. These executives no longer participate in the STI plan.

In order 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.

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.

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 the 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 142 senior members or 18% 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.

The following table outlines key statistics reported by the Company over the last five years to 30 June 2017:

	2017 $000'S	2016 $000'S	2015 $000'S	2014 $000'S	2013 $000'S
Total revenue ($000)	572,595	267,280	141,420	143,254	83,431
NPAT ($000) attributable to Mayne Pharma shareholders	88,562	37,355	7,759	21,290	(2,843)
Basic EPS (cents)	6.18	4.77	1.18	3.72	(0.70)
Share price (30 June)	$1.085	$1.905	$0.985	$0.850	$0.430
Dividends per share (cents)	-	-	-	-	-

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

Dated at Melbourne, Australia this 30th day of August 2017.

Mr Scott Richards
Managing Director and CEO

AUDIT INDEPENDENCE DECLARATION

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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 2017, 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 C. Butler
Partner
30 August 2017

CORPORATE GOVERNANCE

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, RPC and Nomination 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

		CONSOLIDATED	
		2017	2016
	NOTE	$'000	$'000
Continuing operations			
Sale of goods		503,521	206,629
Services revenue		68,163	59,170
License fee revenue		53	391
Royalties revenue		858	1,090
Revenue	2	**572,595**	**267,280**
Cost of sales	6	(256,834)	(98,914)
Gross profit		**315,761**	**168,366**
Other income	4	33,241	7,491
Research and development expenses		(8,275)	(8,731)
Marketing and distribution expenses		(39,122)	(38,029)
Administration expenses and other expenses	6	(153,133)	(75,650)
Impairments	14	(20,213)	-
Finance expenses	6	(12,324)	(3,610)
Profit before income tax		**115,935**	**49,837**
Income tax expense	7	(29,909)	(15,314)
Net profit from continuing operations after income tax		**86,026**	**34,523**
Attributable to:			
Equity holders of the Parent		88,567	37,355
Non-controlling interests		(2,541)	(2,832)
		86,026	**34,523**
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		2,279	(864)
Income tax effect			-
Exchange differences on translation		(19,740)	3,161
Income tax effect		-	-
Items that will not be reclassified to profit or loss in future periods			
Exchange differences on translation		(323)	310
Income tax effect			-
Total comprehensive income for the period		**68,242**	**37,130**
Attributable to:			
Equity holders of the Parent		71,106	39,652
Non-controlling interests		(2,864)	(2,522)
		68,242	**37,130**
Basic earnings per share	8	6.18 cents	4.77 cents
Diluted earnings per share	8	6.06 cents	4.62 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	NOTE	CONSOLIDATED 2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	22	63,027	47,481
Trade and other receivables	9	232,716	92,117
Inventories	10	106,394	38,943
Income tax receivable		7,972	7,399
Other financial assets	11	8,025	3,458
Other current assets	12	10,869	887,653
Total current assets		**429,003**	**1,077,051**
Non-current assets			
Property, plant and equipment	13	189,272	84,449
Deferred tax assets	7	61,204	31,799
Intangible assets and goodwill	14	1,235,441	332,483
Total non-current assets		**1,485,917**	**448,731**
Total assets		**1,914,920**	**1,525,782**
Current liabilities			
Trade and other payables	15	154,460	988,954
Interest-bearing loans and borrowings	16	13,124	503
Income tax payable		-	12,308
Other financial liabilities	17	24,050	13,273
Provisions	18	8,261	9,287
Total current liabilities		**199,895**	**1,024,325**
Non-current liabilities			
Interest-bearing loans and borrowings	16	327,122	76,331
Other financial liabilities	17	16,905	5,814
Deferred tax liabilities	7	56,912	41,640
Provisions	18	1,662	1,451
Total non-current liabilities		**402,601**	**125,236**
Total liabilities		**602,496**	**1,149,561**
Net assets		**1,312,424**	**376,221**
Equity			
Contributed equity	19	1,130,404	263,161
Reserves	20	23,337	39,058
Retained earnings	21	150,097	61,530
Equity attributable to equity holders of the Parent		**1,303,838**	**363,749**
Non-controlling interests		8,586	12,472
Total equity		**1,312,424**	**376,221**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	NOTE	CONSOLIDATED 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		560,491	208,745
Payments to suppliers and employees		(518,700)	(107,024)
Interest received		286	461
Interest paid		(10,313)	(1,422)
Tax paid		(57,578)	(26,496)
Net operating cash flows before research and non-capitalised development expenditure, set-up and transaction costs		**(25,814)**	**74,264**
Payments for research and non-capitalised development expenditure		(7,165)	(6,014)
Net patent litigation gains		22,362	-
Settlement costs relating to a distributor dispute		-	(6,668)
Teva acquisition set-up and transaction costs		(3,097)	(6,824)
Department of Justice matter related costs		(1,523)	(1,255)
Net cash flows from operating activities	22	**(15,237)**	**53,504**
Cash flows from investing activities			
Payments for property, plant and equipment		(104,416)	(29,590)
Payments for intangible assets		(951,704)	(10,665)
Payments for capitalised development costs		(27,802)	(22,593)
Earn-out payments		(13,875)	(20,950)
Net cash flows used in investing activities		**(1,097,797)**	**(83,798)**
Cash flows from financing activities			
Proceeds from issues of shares		892,138	995
Transaction costs on issue of shares		(28,357)	-
Equity contributions from non-controlling interests		806	3,658
Payment of employee withholding taxes relating to settlement of Restricted Stock Units by HPPI (shares withheld)		(4,841)	-
Repayment of borrowings		(463)	(344)
Proceeds from borrowings (net of fees)		270,382	13,681
Net cash flows from financing activities		**1,129,665**	**17,990**
Net increase / (decrease) in cash and cash equivalents		**16,631**	**(12,304)**
Cash and cash equivalents at the beginning of the period		47,858	59,567
Effect of exchange rate fluctuations on cash held		(1,097)	595
Cash at the end of the period		**63,392**	**47,858**
Less restricted cash	11	**(365)**	**(377)**
Cash at the end of the period (unrestricted)	22	**63,027**	**47,481**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVE	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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**
Balance at 1 July 2015	**255,834**	**3,230**	**27,631**	**-**	**-**	**24,175**	**310,870**	**11,332**	**322,202**
Profit/(loss) for the period	-	-	-	-	-	37,355	37,355	(2,832)	34,523
Other comprehensive income									
Cash flow hedge	-	-	-	(864)	-	-	(864)	-	(864)
Foreign exchange differences	-	-	3,161	-	-	-	3,161	310	3,471
Total comprehensive income for the period	**-**	**-**	**3,161**	**(864)**	**-**	**37,355**	**39,652**	**(2,522)**	**37,130**
Transactions with owners in their capacity as owners									
Shares issued	995	-	-	-	-	-	995	-	995
Share issue costs (net of tax)	-	-	-	-	-	-	-	-	-
Change equity investment in subsidiary	-	-	-	-	1,180	-	1,180	-	1,180
Equity contributions by non-controlling interests	-	-	-	-	-	-	-	3,662	3,662
Tax effect of employee share options	5,943	-	-	-	-	-	5,943	-	5,943
Share-based payments	-	5,109	-	-	-	-	5,109	-	5,109
Share options exercised	389	(389)	-	-	-	-	-	-	-
Balance at 30 June 2016	**263,161**	**7,950**	**30,792**	**(864)**	**1,180**	**61,530**	**363,749**	**12,472**	**376,221**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 2017 was authorised for issue by the Directors on 30 August 2017.

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 2017. 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;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not 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. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

During the 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. Subsequent to the Teva acquisition, the predominant revenues and expenses of Mayne Pharma LLC will be 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 Other Comprehensive Income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular 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 with the exception of 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 readily 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 has 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 other changes in accounting policy during the year ended 30 June 2017, 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 2016 comparative period have been reclassified to reflect the current presentation and enable better comparison between periods.

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 analytical and pharmaceutical development 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 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

The combined revenue from the largest customer from each reporting segment was $210.1m for the year ended 30 June 2017.

Approximately 59% of the Group's 2017 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. These three customers trade with both the GPD and SBD segments.

	GENERIC PRODUCTS $'000	METRICS CONTRACT SERVICES $'000	SPECIALTY BRANDS $'000	MPI $'000	TOTAL $'000
Year ended 30 June 2016					
Sale of goods	106,824	-	77,835	21,970	206,629
Services revenue	-	48,886	-	10,284	59,170
License fee revenue	-	-	-	391	391
Royalty revenue	-	-	-	1,090	1,090
Revenue	106,824	48,886	77,835	33,735	267,280
Cost of sales	(46,048)	(22,492)	(4,436)	(25,938)	(98,914)
Gross profit	60,776	26,394	73,399	7,797	168,366
Other income					7,491
Amortisation of intangible assets					(16,335)
Fair value movement in earn-out liability					4,086
Other expenses (refer Statement Profit or Loss and Other Comprehensive Income)					(113,771)
Profit before income tax					49,837
Income tax expense					(15,314)
Net Profit for the period					34,523

Geographical information

Revenue from external customers	2017 $'000	2016 $'000
Australia	26,224	26,021
United States	538,327	233,654
Korea	3,397	2,465
Other	4,647	5,140
Total external revenue	572,595	267,280

Non-current assets	2017 $'000	2016 $'000
Australia	124,436	111,736
United States	1,300,277	305,196
Total non-current assets	1,424,713	416,932

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

Product information

Revenue by product group/service	2017 $'000	2016 $'000
Contract services	10,348	10,284
Analytical & formulation	57,815	48,886
Oral & other pharmaceuticals	503,574	207,020
Other revenue	858	1,090
Total external revenue	572,595	267,280

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

As is typical in the pharmaceutical industry, 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 administered by State governments using State and Federal funds to provide assistance to certain vulnerable and needy individuals and families. 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, which funds healthcare benefits to individuals aged 65 or older and those with certain disabilities, provides prescription drug benefits under Part D section of the program. This benefit is provided and administrated 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 in an effort 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 rebates to key managed healthcare and private plans in an effort 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, and level of inventory in the distribution channel, the terms of individual agreements and the Group's estimate of the claims processing time lag.

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.

The Group enters distribution service agreements with major wholesalers, which discourage the wholesalers from purchasing product quantities in excess of 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 and analysis for third parties. Revenue is recognised when the work is completed 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 49% 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:

	2017 $'000	2016 $'000
Variable Interest bearing loans and borrowings	344,733	76,999
Less Face value of interest rate swaps	(169,139)	(32,049)
Net variable interest rate exposure	175,594	44,950

The Group has partially hedged the USD interest rate exposure by entering into interest rate swap contracts. At 30 June 2017 the interest swaps had a face value of US$130m (2016: US$23.85m).

Interest rate swaps with a face value of US$106.35m mature in June 2021 with the remaining interest rate swaps contracts (US$23.85m) 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.

	2017 $'000	2016 $'000
Cash at bank and on hand	63,027	47,481

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) HIGHER/(LOWER)		EQUITY HIGHER/(LOWER)	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
US interest rates +0.5% (50 basis points)	(801)	(158)	-	-
AUD interest rates +0.5% (50 basis points)	35	47	-	-

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 82% 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 and Other Comprehensive Income at 30 June 2017 as there was no material difference (2016: 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.

In FY16, and in preparation to settle the purchase price for the acquired Teva portfolio, the Company entered into forward exchange contracts to exchange A$860m for US$639.9m (average exchange rate 0.7441). These contracts matured in July 2016.

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$'000 30 JUNE 2017	A$'000 30 JUNE 2016
Cash at bank	56,011	13,602
Other financial assets	8,025	2,918
Intra Group receivables	227,744	121,707
Trade and other payables	(144,482)	(673)
Other financial liabilities	(28,321)	(1,343)
Interest-bearing borrowings	(340,246)	(76,163)
Net exposure	(221,269)	60,049

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 pre-tax impact on the Group's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

	NET PROFIT/(LOSS) HIGHER/(LOWER)		EQUITY HIGHER/(LOWER)	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
AUD/USD +5%	(1,531)	(4,903)	-	-
AUD/USD -5%	1,692	5,467	-	-

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, past experience and industry reputation.

Approximately 59% of the Group's 2017 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 87% of the total trade receivables balance at reporting date. All of these customers were operating within agreed trading terms at the end of the 2017 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 in order to limit the degree of credit exposure. The maximum exposures to credit risk as at 30 June 2017 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:

	2017 $'000	2016 $'000
Cash and cash equivalents[1]	63,027	47,481
Trade and other receivables[2]	232,716	92,117
	295,743	139,598

Notes: 1. Minimum of S&P AA rated counterparty with which deposits are held.
2. At period end 2017 trade receivables were $230,444,000, with 96% 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 through the use of bank loans and cash and short-term deposits sufficient to meet the Group's current cash requirements.

The Board manages liquidity risk by monitoring, on a monthly basis, the total cash inflows and outflows expected forecast on a rolling 18-month basis.

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 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)

	LESS THAN 6 MONTHS $'000	6 TO 12 MONTHS $'000	1 TO 5 YEARS $'000	GREATER THAN 5 YEARS $'000	TOTAL $'000
30 June 2016					
Liquid financial assets					
Cash and cash equivalents	47,481	-	-	-	47,481
Trade and other receivables	92,117	-	-	-	92,117
	139,598	-	-	-	139,598
Financial liabilities					
Trade and other payables	(112,810)	-	-	-	(112,810)
Settlement obligation in relation to the Teva transaction[1]	(876,144)	-	-	-	(876,144)
Interest-bearing loans and borrowings	-	-	(76,834)	-	(76,834)
Other financial liabilities	(6,436)	(6,837)	(7,306)	-	(20,579)
	(995,390)	(6,837)	(84,140)	-	(1,086,367)
Net inflow/(outflow)	(855,792)	(6,837)	(84,140)	-	(946,769)

Note: 1. The Teva transaction was settled on 3 August 2016 using funds from the share issue (A$865m) completed in July 2016 as well as additional borrowings.

The Group has undrawn loan facilities of US$145m plus the undrawn working capital facilities of A$10m and US$10m available at reporting date. Refer Note 16.

NOTE 4 – OTHER INCOME

	2017 $'000	2016 $'000
Interest received	286	461
Rental from excess office space	188	185
Litigation settlement receipt	26,175	-
Gain on restatement of HPPI warrants (refer Note 5)	5,307	470
Net gain on foreign exchange	-	4,462
Other	1,285	1,913
	33,241	7,491

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 the building at Salisbury 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, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account 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.

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 the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of 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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Assets				
Warrants (options) - HPPI	6,208	2,918	6,208	2,918
Mark to market valuation - interest rate swap contracts	1,415	-	1,415	-
Liabilities				
Earn-out liability - Libertas' former shareholder	-	1,343	-	1,343
Earn-out liability - Oxycodone	-	5,230	-	5,230
Earn-out liability - various other products/distribution rights	5,739	8,826	5,739	8,826
Mark to market valuation - interest rate swap contracts	-	864	-	864
Interest bearing syndicated loan	340,050	76,163	344,733	76,999

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 51% and was based on the Nasdaq Bio-tech index over 5 years. A change in the share price volatility to 61% would increase the warrants value by approximately 4% in US dollar terms.

The earn-out liabilities payable utilise 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 own non-performance risk at reporting date was assessed as insignificant.

Assets and liabilities measured at fair value

As at 30 June 2017, the Group held the following financial instruments carried at fair value in the Statement of Financial Position:

	LEVEL 2		LEVEL 3	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial Assets				
Warrants (options)	-	-	6,208	2,918
Mark to market valuation - interest rate swap contracts	1,415	-	-	-
Financial Liabilities				
Earn-out liability – Libertas' former shareholder	-	-	-	1,343
Earn-out liability – Oxycodone	-	-	-	5,230
Earn-out liabilities – various other products / distribution rights	-	-	5,739	8,826
Mark to market valuation - interest rate swap contracts	-	864	-	-

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:

	2017 $'000 WARRANTS	2016 $'000 WARRANTS	2017 $'000 EARN-OUTS	2016 $'000 EARN-OUTS
Opening balance	2,918	1,267	15,400	31,654
Additions recognised for acquisitions made during current year	-	1,181	-	5,292
Fair value movement	5,307	470	(818)	(4,086)
Warrants exercised	(2,017)	-	-	-
Amounts settled	-	-	(8,511)	(18,089)
Restatement of foreign currency balances	-	-	(332)	629
Closing Balance	6,208	2,918	5,739	15,400

NOTE 6 – EXPENSES

	2017 $'000	2016 $'000
Finance costs		
Interest expense – loan	7,982	1,504
Unused line fees	2,295	725
Amortisation of borrowing costs	1,204	209
Interest expense – finance leases	36	56
Change in fair value attributable to the unwinding of the discounting of the earn-out liabilities[1]	807	1,116
	12,324	3,610
Depreciation[2]	6,514	5,042
Inventory write offs (included in cost of sales)	9,581	2,136
Inventory provision for obsolescence and net realisable value adjustments (included in cost of sales)	9,270	798
Employee benefits expense[3]		
Wages and salaries	83,659	64,135
Superannuation expense	4,005	3,080
Other employee benefits expense	7,982	9,065
Share-based payments (refer Note 26)	11,199	5,109
Total employee benefits	106,845	81,389
Administration and other expenses include the following:		
Settlement costs relating to a distributor dispute	-	6,668
Department of Justice legal costs	1,523	1,255
Acquisition costs	3,097	3,382
Set-up costs re acquired Teva portfolio	-	3,442
Foreign exchange losses	3,737	-
Amortisation of intangible assets	67,154	16,335
Movement in undiscounted fair value of earn-out liabilities[4]	(1,324)	(5,202)

Notes:
1. The non-cash unwinding of the discount relates to all earn-out liabilities.
2. Depreciation expense is included in R&D expenses and cost of sales.
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 of $1,324,000 (2016: $5,202,000) was a non-cash (credit)/charge relating to re-assessment of the underlying assumptions for various earn-out liabilities.

Acquisition costs

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

In the prior period $3,382,000 of acquisition costs relating to the acquired Teva portfolio were expensed.

NOTE 7 – INCOME TAX

A. The major components of income tax expense are:

	2017 $'000	2016 $'000
Income tax expense		
Current income tax	(44,939)	(33,359)
Adjustment in respect of current income tax of previous years	(495)	232
Deferred income tax	15,525	17,813
Income tax expense in the consolidated statement of profit or loss and other comprehensive income	(29,909)	(15,314)
Deferred income tax benefit/(expense) included in income tax expense comprises		
Increase in deferred tax assets	32,598	25,684
(Increase) in deferred tax liabilities	(17,073)	(7,871)
	15,525	17,813

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

	2017 $'000	2016 $'000
The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:		
Profit/(loss) before income tax	115,935	49,837
Prima facie tax benefit/(expense) at 30%	(34,781)	(14,952)
Effect of R&D concessions	707	803
Over/(under) provision in respect of prior years	(495)	232
Non-deductible expenses for tax purposes		
Share-based payments	(974)	(546)
Acquisition costs	(337)	(44)
Adjustments relating to earn-out liabilities	155	957
Amortisation intangibles	(1,531)	(2,217)
Other non-deductible expenses	(4,792)	(172)
Non assessable income	18,013	141
Tax loss of HPPI not recognised	(1,559)	(1,511)
Restatement of deferred tax balances due to change in US state tax rate	(735)	-
Effect of higher tax rate in US	(2,252)	449
US State taxes	(2,097)	275
US Domestic production activity deduction	769	1,271
Income tax expense	(29,909)	(15,314)

C. Recognised deferred tax assets and liabilities

	2017 $'000	2016 $'000
Deferred tax assets		
Intangible assets	7,131	1,883
Provisions	5,245	2,542
Other		
Payables	45,957	18,944
Inventory	12,299	14,497
Employee share options	3,512	7,296
Equity raising costs	590	1,145
US State taxes	4,628	2,789
Earn-out liability	343	496
Other	972	55
	68,301	45,222
	80,677	49,647

	2017 $'000	2016 $'000
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Assets	80,677	49,647
Set off of Deferred Tax Liabilities that are expected to reverse in the same period	(19,473)	(17,848)
Net Deferred Tax Assets [1]	61,204	31,799

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 2015	2,023	2,138	13,958	18,119
Credit/(charge) to profit/loss	(140)	371	25,453	25,684
Credit direct to equity	-	-	5,943	5,943
Restatement of foreign currency balances	-	33	(132)	(99)
Balance at 30 June 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

	2017 $'000	2016 '000
Deferred tax liabilities		
Property, plant and equipment	6,339	4,468
Intangible assets	50,847	46,805
Other		
Unrealised foreign exchange gains	2,275	663
US State taxes	6,215	5,286
Prepayments	10,643	708
Other	66	1,558
	19,199	8,215
	76,385	59,488
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Liabilities	76,385	59,488
Set off of Deferred Tax Assets that are expected to reverse in the same period	(19,473)	(17,848)
Net Deferred Tax Liabilities[1]	56,912	41,640

	PROPERTY PLANT EQUIPMENT $'000	INTANGIBLE ASSETS $'000	OTHER $'000	TOTAL $'000
Deferred tax liability movements				
Balance at 1 July 2015	4,680	40,340	4,883	49,903
Charge to profit/loss	(283)	4,977	3,177	7,871
Restatement of foreign currency balances	71	1,488	155	1,714
Balance at 30 June 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

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. As a consequence, 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.

Tax consolidation legislation

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

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.

NOTE 8 – EARNINGS PER SHARE

	2017	2016
Earnings per share for profit attributable to the ordinary equity holders of the Parent:		
Basic earnings per share	6.18 cents	4.77 cents
Diluted earnings per share	6.06 cents	4.62 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:

	2017 $'000	2016 $'000
For basic earnings per share		
Net profit attributable to equity holders of the Company	88,567	37,355
For diluted earnings per share		
Net profit attributable to equity holders of the Company	88,567	37,355

	2017 '000	2016 '000
Weighted average number of ordinary shares for basic earnings per share	1,433,643	782,397
Effect of dilution:		
Share options and LTI shares	26,706	26,950
Weighted average number of ordinary shares adjusted for the effect of dilution	1,460,349	809,347

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:

	2017 '000	2016 '000
Number of potential ordinary shares	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.

NOTE 9 – TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Current		
Trade receivables (net of charge-backs)	229,895	89,895
Trade receivables – profit share	1,872	1,670
Provision for impairment	(1,323)	(23)
Other receivables	2,272	575
	232,716	92,117

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 2017	225,020	122	5,302	230,444
Trade receivables 30 June 2016	86,391	1,021	4,130	91,542

Trade and other receivables

Trade receivables are non-interest bearing and are generally on 30 to 60-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, $1,323,000 (2016: $23,000) of receivables were considered to be impaired.

Trade receivables – profit share are due on 90 day terms. None of these receivables are considered to be impaired at reporting date.

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. 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.

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 and our estimate of the claims processing time lag.

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

	2017 $'000	2016 $'000
Raw materials and stores at cost	25,682	11,301
Work in progress at cost	2,293	11,525
Finished goods at lower of cost and net realisable value	78,419	16,117
	106,394	38,943

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 $9,928,000 (2016: $863,000).

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.

NOTE 11 – OTHER FINANCIAL ASSETS

	2017 $'000	2016 $'000
Current		
Restricted cash	365	377
Unbilled client service fees	37	163
Mark to market value of interest rate swaps contracts	1,415	-
Warrants	6,208	2,918
	8,025	3,458

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	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	BALANCE AT END OF YEAR	2017 $'000	2016 $'000
			Number	Number	Number	Number		
Unlisted options	8.78	24/06/19	10,259,569	-	10,259,569	-	-	350
Unlisted options	7.50	15/05/20	33,333,333	-	33,333,333	-	-	1,481
Unlisted options	12.00	27/05/21	28,364,236	-	4,860,000	23,504,236	6,208	1,087
			71,957,138	-	48,425,902	23,504,236	6,208	2,918

The warrants have been recognised at fair value using the Black-Scholes method. A fair value increment of $5,307,000 was recognised during the period in relation to the remaining warrants.

During the 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

	2017 $'000	2016 $'000
Current		
Prepayments	10,869	11,509
Contract rights relating to the acquired Teva portfolio settled post year-end	-	876,144
	10,869	887,653

On 28 June 2016, the Company announced it had entered into an agreement to acquire 37 approved and 5 FDA filed products from Teva and Allergan for cash consideration of US$652m. As the Company had a contractual obligation at 30 June 2016, the Company recognised both the rights and obligations under the contract at 30 June 2016.

The Teva portfolio acquisition was completed on 3 August 2016.

The Company funded the acquisition via an extension of its existing debt facility, and a fully underwritten $601m, 1-for-1.725 accelerated non-renounceable entitlement offer and $287m placement.

After the completion of the transaction, the assets acquired were recognised in the appropriate asset categories on the balance sheet with the majority relating to product rights intangible assets.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	LAND $'000	BUILDINGS $'000	PLANT AND EQUIPMENT $'000	CAPITAL UNDER CONSTRUCTION $'000	TOTAL $'000
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
Year ended 30 June 2016					
Balance at beginning of year net of accumulated depreciation	9,150	26,913	21,559	1,974	59,597
Additions	-	596	4,134	24,529	29,259
Disposals	-	-	-	-	-
Depreciation charge for year	-	(998)	(4,044)	-	(5,042)
Foreign currency restatement	133	581	364	(442)	636
Balance at end of year net of accumulated depreciation	9,283	27,092	22,013	26,061	84,449
At 30 June 2016					
At cost	9,283	31,462	42,602	26,061	109,408
Accumulated depreciation	-	(4,370)	(20,589)	-	(24,959)
Net carrying amount	9,283	27,092	22,013	26,061	84,449

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 & 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.

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	OTHER $'000	TOTAL $'000
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
The split between indefinite and definite life assets is as follows -							
Indefinite life assets	58,217	87,344	71,082	45,258	-	-	261,901
Definite life assets	-	890,862	20,529	10,028	51,121	-	973,540
Net carrying amount	58,217	978,206	91,611	55,286	52,121	-	1,235,441
Year ended 30 June 2016							
Balance at beginning of year net of accumulated amortisation	58,436	38,609	51,562	56,646	65,183	32,523	302,960
Transfers[1]	-	32,523	-	-	-	(32,523)	-
Additions	-	17,886	22,593	1,196	-	-	41,675
Amortisation	-	(5,500)	(1,189)	(1,992)	(7,654)	-	(16,335)
Impairments[2]	-	-	(1,701)	-	(54)	-	(1,755)
Foreign currency restatement	1,679	1,794	783	1,551	131	-	5,938
Balance at end of year net of accumulated amortisation	60,115	85,312	72,048	57,402	57,606	-	332,483
As at 30 June 2016							
Cost	60,115	120,725	77,180	59,677	68,855	-	386,552
Accumulated amortisation	-	(35,413)	(2,028)	(2,275)	(11,195)	-	(50,911)
Accumulated impairments	-	-	(3,104)	-	(54)	-	(3,158)
Net carrying amount	60,115	85,312	72,048	57,402	57,606	-	332,483

Notes:
1. Additions relating to HPPI temporarily classified as Other Intangibles for the year ended 30 June 2015 were reviewed and reclassified to the appropriate category in the prior period.
2. Development expenditure impairments are included in research and development expenses in the Statement of Profit or Loss and Other Comprehensive Income (for the year ended 30 June 2016).

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 basis of 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:

	2017 $'000	2016 $'000
GPD	38,332	39,595
MCS	19,494	20,129
MPI	391	391
Closing goodwill balance at 30 June	58,217	60,115

Goodwill arising from the acquisition of Mayne Pharma Inc (formerly Metrics Inc), has been 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) has been allocated to the GPD CGU.

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.

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. During the year ended 30 June 2017, the useful life of Doryx and the Foam Assets (Fabior, 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 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 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.

During the year ended 30 June 2017, 41 development projects (2016: 46 development projects) met the requirements for capitalisation with a life to date value of $71m.

Significant accounting estimates and assumptions

Impairment of goodwill and intangible assets

Impairments of $20.2m (being $16.6m in the Women's Health Therapeutic Group of the GPD reporting segment, $2.9m on internal R&D in process

relating to three projects and $0.6m in relation to one partially impaired purchased R&D project) were recognised during the period as a result of 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.

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. Usually, the Group applies the value in use method which utilises net present value techniques using pre-tax cash flows and discount rates.

Fair value reflects estimates of assumptions that market participants would be expected to use when pricing the asset or CGUs and for this purpose management considers the range of economic conditions that are expected to exist over the remaining useful life of the asset.

The estimates used in calculating net present value 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;
- selected tax rate;
- 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 the purpose of impairment testing Intangible Assets 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 for Goodwill testing. Assets not included in these CGUs are Purchased assets not yet launched, R&D in process and Mayne Pharma's investment in HPPI.

The Group's impairment testing for goodwill and intangible assets with indefinite lives is based on value-in-use calculations.

Each CGU or TG 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).

Intangible assets have been grouped into the relevant CGUs and TGs. Impairment testing is then conducting at firstly the CGU level and then the TG level.

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

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

Certain indefinite life intangible assets and intangible assets not yet available for use are not included in CGUs/TGs and tested individually and on an annual basis. These include:

- Purchased assets not yet launched; and
- R&D in process.

Purchased assets not yet launched and R&D in process represent products in development but not yet launched. These assets are tested individually 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.

HPPI represents a similar asset to R&D in process, however Mayne Pharma has a controlling (but not 100%) ownership in the company undertaking the development.

As a result of individual testing, three internal R&D in process projects were impaired totalling $2.9m and one purchased R&D project was partially impaired totalling $0.6m for the year ended 30 June 2017 (2016: $1.7m)

Goodwill represents an indefinite life asset which is allocated to CGUs (GPD, MCS and MPI) and, as such, is tested at this level.

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

	MPI	GPD	SBD	MCS	OTHER	TOTAL
Definite Life assets	53,497	841,809	64,830	6,654	6,750	973,540
Indefinite life assets						
Launched products	13,820	44,917				58,737
Purchased assets not yet launched					49,929	49,929
R&D in process					71,082	71,082
HPPI					23,936	23,936
Goodwill	391	38,332		19,494		58,217
Total Intangibles	**67,708**	**925,058**	**64,830**	**26,148**	**151,697**	**1,235,441**

Key assumptions in impairment testing methodology include:

- Cash flow forecasts are based on FY18 forecast results as well as specific cash flows which have been forecast out to FY22. A terminal growth rate is then applied;
- Only existing 'in use' assets and related cash flows have been included in the CGUs/TGs for testing. Pipeline (R&D in process) and other future growth assets (and their related cash flows) have not been included in CGUs/TGs as they are considered indefinite life assets and are separately tested. As such, the CGU future cash flow estimates may differ to market expectations;
- Development expenditure is related to R&D in process and is not included in CGU/TG cash flows as these assets are tested separately. This expenditure relates to the generation of future growth assets and their estimated cash flows have not been included in the CGU/TG forecasts;
- Corporate overhead has been allocated to CGUs and TGs;
- Other assets have been allocated to CGUs and TGs; 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. The Cost of Equity was calculated using the Capital Asset Pricing Model methodology with betas (both Bloomberg and Barra) referenced from relevant peers per CGU. The Cost of Debt was determined using the Group's actual cost of debt from current facilities. The relevant discount rate was then calculated by applying appropriate weights to both the Cost of Equity and Cost of Debt based on target capital structures.

The pre-tax discount rates used are shown below:

- MCS: 15.6% (FY16: 15.9%);
- SBD: 15.6% (FY16: n/a);
- GPD: 14.8% (FY16: 17.2%)[1]; and
- MPI: 15.0% (FY16: n/a)[2].

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.

Discount rates have reduced from last year given:

- WACCs had not been reassessed since FY15 and the company has increased materially in size and diversity since that time; and
- Pipeline/growth assets have not been included meaning that forecast cash flows have less risk attached (as they relate to 'in use' assets) and are also lower growth (especially in GPD).

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 in accordance with applicable accounting standards but should not be used for guidance. These assumed average growth rates do not include growth applicable to Purchased assets not yet launched and R&D in process as these are tested separately.

	ASSUMED AVERAGE FORECAST GROWTH RATES FOR 1ST 5 YEARS	ASSUMED TERMINAL VALUE GROWTH RATE
MCS CGU forecast net sales growth	12%	2%
GPD CGU forecast net sales growth	-5%	-1%
GPD WH TG forecast net sales growth	*-10%*	*-1%*
GPD Other TG forecast net sales growth	*-2%*	*-1%*
SBD CGU forecast net sales growth	54%[1]	-3%
MPI CGU forecast net sales growth	8%	*-2%*
MPI Dermatology TG forecast net sales growth – FY17	*9%*	*-3%*
MPI Other TG forecast net sales growth – FY17	*7%*	*0%*

Note: 1. Significantly impacted by the acquisition of Fabior/Sorilux in FY17 and relaunch by Mayne Pharma in January 2017 (i.e. FY17 base year was not a full year of net sales).

The assumed net sales forecast growth rates used in the prior year (year ended 30 June 2016) impairment testing analysis are outlined below

- The average growth rate used for the MPI CGU for the first three years was 5%, for the next two years 5.0% and the terminal value growth rate of 2.5% for future periods;
- The average growth rate used for the GPD was 42% for the first three years, 6% for the next three years and a terminal value growth rate of 3% for future periods. The growth rates reflect new product approvals; and
- The average growth rate used for the MCS CGU was 8% for the first three years, 12% for the next three years and a terminal value growth rate of 1% for future periods.

The table below shows the recoverable value and carrying value for the GPD CGU and related TGs. As a result of testing undertaken, an impairment of $16.9m was recognised for the year end 30 June 2017 in the GPD CGU in the Women's Health TG (2016: nil, as the Women's Health TG came into existence in the current year due to the purchase of the acquired Teva portfolio).

	Recoverable Value	Carrying Value[1]	Difference

GPD	1,164,503	1,129,901[2]	34,602
GPD WH TG	*291,919*	*291,919*[3]	-
GPD Other TG	*872,584*	*799,650*[3]	*72,934*

Notes:
1. The sum of the carrying value for the two individual GPD TGs is less than the carrying value for the CGU as Goodwill is not pushed down to the TGs.
2. Includes intangible assets, goodwill, working capital and property, plant and equipment.
3. Includes intangible assets, working capital and property, plant and equipment.

Sensitivity to changes in assumptions

The tables below show the changes in key variables that would lead to the recoverable value being equivalent to the carrying value for the GPD CGU and relevant TGs.

	GPD CGU	*GPD WH TG*[1]	*GPD OTHER TG*
Change in net sales growth after FY18	-1.4%	*Refer Note 1*	*-3.8%*
Change in terminal value growth rate	-0.6%	*Refer Note 1*	*-1.8%*
Change in WACC[2]	+0.4%	*Refer Note 1*	*+1.1%*

Notes:
1. As noted above, an impairment was recognised for the year end 30 June 2017 in the GPD CGU in the Women's Health TG. As a result, at 30 June 2017, the carrying value for the Women's Health TG is equivalent to the recoverable value and so any adverse movement in any key assumption would lead to further impairment.
2. Change refers to the movement in the post-tax WACC (and not pre-tax WACC).

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.

At the time of the Teva portfolio acquisition, a useful life of 20 years was adopted for the acquired Teva portfolio on the basis of the therapeutic life of the asset:

- The average age of the Teva assets was 30 years+ (average year of product launch was 1984);
- The risk of therapeutic substitution was considered low (supported by industry reports); and
- In market volumes were steady.

The therapeutic substitution assessment remains unchanged. However, given continued political focus on the price of pharmaceuticals in the US, recent consolidation of buying groups (which could be more structural in nature), current market circumstances and its impact on volumes (which may be short or longer term in nature), it is considered appropriate to adjust the useful life back to 15 years.

The useful lives of the Foam Assets and the Doryx asset have also been considered and reassessed from 10 to 15 years on the basis of:

- Stable growth in addressable markets;
- Mayne Pharma's stable position in these markets;
- Long term patent protection;
- Medically, the marketplace and use of the products (topical retinoids and oral tetracyclines) is not expected to change and risk of therapeutic substitution is considered low; and
- Promotional and R&D investment to further grow and hold market share.

These changes will align the useful lives of Mayne Pharma's major definite life assets. The net impact of the changes to useful lives 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

	2017 $'000	2016 $'000
Current		
Trade payables	66,593	64,051
Accrued rebates, returns and loyalty programs	71,348	39,859
Other payables	16,519	8,901
Settlement obligation in relation to the Teva transaction	-	876,144
	154,460	988,954

On 28 June 2016, the Company announced it had entered into an agreement to acquire 37 approved and 5 FDA filed products from Teva and Allergan for cash consideration of US$652m. This asset purchase was completed and the liability was settled on 3 August 2016.

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.

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 United States Medicaid Drug Rebate Program is administered by State governments using State and Federal funds to provide assistance to certain vulnerable and needy individuals and families. 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, which funds healthcare benefits to individuals aged 65 or older and those with certain disabilities, provides prescription drug benefits under Part D section of the program. This benefit is provided and administrated 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 in an effort 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

	2017 $'000	2016 $'000
Current		
Syndicated loan (working capital facility)	13,011	-
Lease liabilities	113	503
	13,124	503

	2017 $'000	2016 $'000
Non-current		
Syndicated loan	331,722	76,999
Borrowing costs (net of amortisation)	(4,683)	(836)
Lease liabilities	83	168
	327,122	76,331

As part of the funding for the acquired Teva portfolio, the syndicated loan facility was amended and restated 28 July 2016.

The loan facility is supported by a syndicate of nine banks. The loan facility limit was increased to US$400m comprising a 3 year US$150m term loan and a five 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 total amount drawn at 30 June 2017 was US$265m (includes US$10m of the working capital facilities). The working capital facilities are subject to the same financial covenants as the syndicated loan facility. The working capital facilities had a one-year term which matured 28 July 2017. These facilities were extended for a two year period subsequent to reporting date.

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

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

In the prior year, the syndicated loan facility was provided by Westpac and National Australia Bank (NAB) and was a five year revolving loan effective from 24 June 2015. The amount drawn at 30 June 2016 was US$57.3m. This facility had a limit of US$125m and could be drawn down in either USD or AUD with USD the major currency drawn down. NAB has also provided a working capital facility of A$10m.

At 30 June 2017, the average variable interest rate was 3.154% (30 June 2016: 1.943%).

Loan maturities are summarised as follows:

	2017 $'000	2016 '000
Current	13,011	-
Non-current	331,722	76,999
	344,733	76,999
Due by 30 June 2018	13,011	-
Due by 30 June 2019	-	-
Due by 30 June 2020	195,160	76,999
Due by 30 June 2021	-	-
Due by 30 June 2022	136,562	-
	344,733	76,999

There were no defaults or breaches on any loans during the year ended 30 June 2017.

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 so as 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

	2017 $'000	2016 $'000
Current		
Earn-out liability – Libertas' former shareholder	-	1,343
Earn-out liability – Oxycodone	-	5,230
Earn-out liabilities – various products/distribution rights	3,980	4,684
Deferred consideration – various products/distribution rights	17,728	2,016
Completion of clinical studies obligation relating to acquired asset	2,342	-
	24,050	13,273
Non-current		
Completion of clinical studies obligation relating to acquired asset	2,512	-
Earn-out liabilities – various products/distribution rights	1,759	4,143
Deferred consideration – various products/distribution rights	12,634	1,671
	16,905	5,814

The consolidated entity has recognised various earn-out liabilities relating to various asset purchases. The majority of the earn-outs are based on a percentage of net sales and typically payable on a quarterly 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 reported in the consolidated statement of profit or loss and other comprehensive income.

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 $807,000 (2016: $1,116,000) for the period representing the change in fair value as a result of the unwinding of the discounting.

Deferred consideration liabilities

Deferred consideration liabilities represent the net present value of future predetermined payments. In the prior year, one of the accrued amounts was subject to market conditions. Conditions in the current period resulted in the amount accrued being re-assessed (refer Note 6). At 30 June 2017 the deferred consideration amounts consist mainly of amounts which are subject to FDA approvals or similar milestone requirements.

NOTE 18 – PROVISIONS

	2017 $'000	2016 $'000
Current		
Employee benefits	8,261	9,287
Non-Current		
Employee benefits	1,312	1,075
Restoration	350	376
	1,662	1,451

Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of 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.

NOTE 19 – CONTRIBUTED EQUITY

A. Movements in contributed equity

	2017 NUMBER	2016 NUMBER	2017 $'000	2016 $'000
Balance at beginning of year	810,046,346	786,754,531	263,161	255,834
Issued during the year:				
Teva portfolio acquisition funding[1]	661,048,634	-	860,487	-
Tax effect of employee share options	-	-	(797)	5,943
Options exercised	15,406,000	3,450,000	7,427	1,384
LTI shares issued (restricted)[2]	26,771,758	19,841,815	-	-
LTI shares forfeited	(2,343,065)	-	-	-
LTI shares exercised (and loan repaid)	-	-	126	-
Balance at end of year	1,510,929,673	810,046,346	1,130,404	263,161

Notes: 1. Shares issued are net of $28,36m of equity raising costs (net of income tax).
2. The shares were granted under the ESLS (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.

B. 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.

C. 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 in order to support its business objectives and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of 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 2017 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 2017 and 30 June 2016.

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.

	2017 $'000	2016 $'000
Interest-bearing borrowings	340,246	76,834
Less cash and cash equivalents	(63,027)	(47,481)
Net debt	277,219	29,353

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

NOTE 20 – RESERVES

	2017 $'000	2016 $'000
Share-based payments reserve	14,890	7,950
Cash flow hedge reserve	1,415	(864)
Other reserve	(4,020)	1,180
Foreign currency translation reserve	11,052	30,792
	23,337	39,058

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.

	2017 $'000	2016 $'000
Balance at beginning of year	7,950	3,230
Share-based payments expense	11,199	5,109
Transfer to contributed equity on exercise of options	(4,259)	(389)
Balance at end of year	14,890	7,950

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.

	2017 $'000	2016 $'000
Balance at beginning of year	(864)	-
Mark to Market unrealised gain / (loss) on interest rate swap contracts	2,279	(864)
Balance at end of year	1,415	(864)

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.

	2017 $'000	2016 $'000
Balance at beginning of year	1,180	-
Change to equity investment in HPPI	(2,513)	1,180
Employee withholding tax paid by HPPI in relation to exercise of Restricted Stock Units	(2,687)	-
Balance at end of year	(4,020)	1,180

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 with the exception of cumulative exchange differences relating to non-controlling interests.

	2017 $'000	2016 $'000
Balance at beginning of year	30,792	27,631
Foreign exchange translation differences	(19,740)	3,161
Balance at end of year	11,052	30,792

NOTE 21 – RETAINED EARNINGS

	2017 $'000	2016 $'000
Retained earnings at the beginning of the period	61,530	24,175
Net profit attributable to members	88,567	37,355
Retained earnings at the end of the period	150,097	61,530

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:

	2017 $'000	2016 $'000
Cash at bank and on hand	63,027	47,481

Cash at bank attracts floating interest at current market rates.

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

	2017 $'000	2016 $'000
Net profit after income tax	86,026	34,525
Adjustments for:		
Depreciation	6,514	5,042
Amortisation of intangibles and borrowing costs	68,353	16,544
Share-based payments	11,199	5,109
Movement in earn-out liability	(517)	(4,086)
Asset impairments	20,213	1,756
Book value of intangible product rights disposed	-	563
Gain on restatement of HPPI investment and/or warrants	(5,307)	(470)
Net unrealised foreign exchange differences	6,842	(5)
Changes in tax balances		
(Increase) in deferred tax assets	(32,598)	(25,684)
Increase in current and deferred tax liabilities	4,929	14,502
Operating cash flows before working capital movements	165,654	47,796
Changes in working capital		
(Increase) in receivables	(146,095)	(26,255)
(Increase) in inventories	(70,478)	(16,680)
(Increase)/decrease in prepayments	398	(5,697)
Increase in creditors	35,932	51,421
Increase/(decrease) in provisions	(648)	2,919
	(180,891)	5,708
Net cash from operating activities	(15,237)	53,504

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	2017	2016	2017	2016
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	76,802	68,802
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	49.4	20,823	13,567
Mayne Pharma SIP Pty Ltd	Australia	100	100	255,270	-
Mayne Pharma LLC	United States	100	100	-	-
				392,100	121,574

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	2017	2016
HedgePath Pharmaceuticals Inc	United States	46.5	50.6

Summarised statement of profit or loss for period ended 30 June 2017

	HPPI 2017 $'000	HPPI 2016 $'000
Revenue	-	-
Cost of sales	-	-
Interest income	47	1
Research and development expenses	(2,689)	(2,222)
Administration expenses	(1,985)	(1,872)
Depreciation and amortisation	(874)	(904)
Share-based payments expenses	(570)	(944)
Loss before tax	(6,071)	(5,941)
Income tax benefit	332	344
Loss after tax	(5,739)	(5,597)
Other Comprehensive income	(323)	613
Total Comprehensive income	(6,062)	(4,984)
Attributable to non-controlling interests	(2,864)	(2,522)

Summarised statement of financial position as at 30 June 2017

	2017 $'000	2016 $'000
Cash at bank	2,138	6,202
Other current assets	544	403
Intangible assets	30,686	32,579
Trade and other payables	(442)	(831)
Deferred tax liabilities	(11,661)	(12,380)
Total equity	21,265	25,973
Attributable to equity holders of Mayne Pharma	10,565	12,008
Attributable to non-controlling interests	8,335	12,472

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 2017 or 30 June 2016.

Amounts owing to Directors, Director-related parties and other related parties at 30 June 2017 and 30 June 2016 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
- Ms Nancy Dolan – Independent Non-Executive Director (appointed 21 September 2016)
- 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 Mark Cansdale – Group Chief Financial Officer (resigned 17 March 2017) and Company Secretary (resigned 24 May 2017)
- Mr Stefan Cross – Chief Commercial Officer from 1 January 2017, previously President Mayne Pharma USA
- Dr Ilana Stancovski – Chief Scientific Officer
- Ms Kate Rintoul – Executive Vice President and General Counsel
- Mr Eric Evans – Chief Financial Officer Mayne Pharma USA (appointed 3 August 2015, resigned 18 August 2017)
- Mr Peter Paltoglou – Chief Development Officer and Head of M&A (appointed 22 August 2015)
- Ms Lisa Pendlebury – Vice President Investor Relations and Communications (appointed 11 November 2015)
- Mr Andrew Van Breugel – Executive Vice President Global Operational Excellence (appointed 11 January 2016)
- Mr John Ross – President Mayne Pharma USA (considered to be KMP from 1 January 2017)
- Mr Nick Freeman – Group Chief Financial Officer and Company Secretary (commenced 22 May 2017, appointed Company Secretary 24 May 2017)

ii. Compensation of KMP

	2017 $'000	2016 $'000
Short-term employee benefits	5,729	4,755
Post-employment benefits	305	250
Long-term benefits	21	45
Share-based payments	4,086	2,020
	10,141	7,070

NOTE 25 – AUDITOR'S REMUNERATION

	2017 $	2016 $
Amounts received or due and receivable by EY Australia for		
Audit and review of financial statements	949,500	372,500
Non-audit services		
Tax compliance services	202,000	140,930
Acquisition and other services	-	49,600
Other Assurance	32,500	31,025
	234,500	221,555
	1,184,000	**594,055**

	2017 $	2016 $
Non-audit services amounts received or due and receivable from member firms related to EY Australia		
Tax compliance and advisory services	714,061	253,746
Acquisition and other services	492,768	164,531

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

	2017 $	2016 $
Non EY Auditors		
Audit and review of financial statements	-	339,810
Other assurance	-	-
	-	339,810

The above non EY auditor 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:

	2017 $'000	2016 $'000
Expense arising from equity-settled share-based payment transactions	8,738	5,109
Option modifications	2,461	-
	11,199	5,109

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). In the event that 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 subsequent to the vesting but prior to the expiry of share-based payments granted, the Board has absolute discretion to determine whether or not such share-based payments will lapse. In the event that 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.

Share Options granted to employees

	EXERCISE PRICE[1]	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	OTHER MOVEMENTS DURING THE YEAR	BALANCE AT END OF YEAR	OPTIONS EXERCISABLE AT END OF YEAR
Year ended 30 June 2017			Number	Number	Number	Number	Number	Number
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.

	EXERCISE PRICE[1]	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	OTHER MOVEMENTS DURING THE YEAR	BALANCE AT END OF YEAR	OPTIONS EXERCISABLE AT END OF YEAR
Year ended 30 June 2016			Number	Number	Number	Number	Number	Number
Unlisted options	$0.2435	13/02/19	7,500,000	-	-	-	7,500,000	7,500,000
Unlisted options	$0.2327	15/03/16	1,000,000	-	(1,000,000)	-	-	-
Unlisted options	$0.3127	12/01/19	10,180,000	-	(1,850,000)	(1,110,000)[2]	7,220,000	3,420,000
Unlisted options	$0.3127	26/01/19	6,440,000	-	(600,000)	-	5,840,000	2,040,000
Unlisted options	$0.3927	7/03/19	800,000	-	-	-	800,000	300,000
Unlisted options	$0.4127	1/07/19	1,000,000	-	-	-	1,000,000	200,000
Unlisted options	$0.6866	21/10/19	400,000	-	-	-	400,000	80,000
Unlisted options	$0.7590	11/11/19	1,000,000	-	-	-	1,000,000	200,000
Unlisted options	$0.7697	30/11/19	1,000,000	-	-	-	1,000,000	200,000
Unlisted options	$0.8946	28/03/19	600,000	-	-	-	600,000	300,000
Unlisted options	$0.8644	19/06/19	600,000	-	-	-	600,000	300,000
Unlisted options	$0.9131	30/06/19	1,000,000	-	-	-	1,000,000	500,000
Unlisted options	$0.9052	2/07/19	400,000	-	-	-	400,000	200,000
Unlisted options	$0.8380	1/08/19	200,000	-	-	-	200,000	-
Unlisted options	$0.8625	28/08/19	600,000	-	-	-	600,000	120,000
Unlisted options	$0.7390	17/12/19	600,000	-	-	-	600,000	120,000
Unlisted options	$0.6290	1/02/20	2,700,000	-	-	-	2,700,000	540,000
			36,020,000	-	(3,450,000)	(1,110,000)	31,460,000	16,020,000

Notes:
1. Original exercise price was adjusted down by $0.0173 under ASX Listing Rule 6.22 following the entitlement issue announced on 10 February 2015. The exercise prices for all outstanding options were subsequently reduced by 9.43 cents each effective 22 July 2016 under ASX Listing Rule 6.22 following the entitlement issue announced 28 June 2016. The above exercise price was the exercise price at 30 June 2016 and hence does not reflect the reduction.
2. Options were forfeited on the termination of employment.

No options were issued to executives under the ESOP during the year ended 30 June 2016.

Tax Exempt Share Plan (TESP)

374,344 shares were issued under the Tax Exempt Share Plan to long-term employees on 18 October 2011 for nil consideration at an effective issue price of $0.39 per share based on price at close of trade for that day. They were restricted for a period of three years but are now unrestricted.

There were no issues under the TESP during the year ended 30 June 2017 (2016: nil).

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 2017 (2016: nil) under the ESOP and the plan is not expected to be utilised going forward.

	2017 NUMBER OF OPTIONS	2017 WEIGHTED AVERAGE EXERCISE VALUE $	2016 NUMBER OF OPTIONS	2016 WEIGHTED AVERAGE EXERCISE VALUE $
Balance at beginning of year	23,960,000	0.4127	28,520,000	0.4599
Granted during the year	-	-	-	-
Exercised during financial year	(7,906,000)	0.2634	(3,450,000)	0.2895
Forfeitures	(100,000)	0.3127	(1,110,000)	0.3127
Balance at end of year	15,954,000	0.2607	23,960,000	0.4127

Option modification

The exercise price for all options on issue under the ESOP were changed in accordance with ASX Listing Rule 6.22 following the Company's pro-rata entitlement issue announced in June 2016. The exercise price change was effective 22 July 2016. For options which had already vested, the change in the intrinsic value was considered to be equal to the change in the exercise price – 9.43 cents. At the date of the exercise price change there were 8,220,000 vested ESOP options which resulted in an additional expense of $775,000 being recognised in the current period. At the date of the exercise price change there were 15,340,000 unvested ESOP options. The incremental fair value of these options was assessed by an independent valuer with the fair value increment varying from 7.20 cents to 9.13 cents each option. The total fair value increment determined was $1,276,057 with this expense being spread over the remaining life of the options. The majority of this expense was recognised in the current year as many of the options vested prior to 30 June.

Chief Executive Officer Share Option Plan (CEOSOP)

A share option plan is in place where the CEO of the Company may be issued with options over the ordinary shares of the Company. Shareholders approved the plan at the Extraordinary General Meeting held on 27 January 2012. The options, issued for nil consideration, were issued in accordance with guidelines established by the Directors of the Company.

Each CEO share 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 seven years after the Grant Date (i.e. 13 February 2019) subject to the terms and conditions outlined in the plan, including Share Price hurdles ranging from $0.74 to $1.19 Share Gateway conditions also apply.

The options were issued in three tranches:

	NUMBER OF OPTIONS	GRANT DATE	VESTING DATE
Tranche 1	1,500,000	13 February 2012	13 February 2015
Tranche 2	2,500,000	13 February 2012	13 February 2015
Tranche 3	3,500,000	13 February 2012	13 February 2016

	2017 NUMBER OF OPTIONS	2017 WEIGHTED AVERAGE EXERCISE PRICE $	2016 NUMBER OF OPTIONS	2016 WEIGHTED AVERAGE ERERCISE PRICE $
Balance at beginning of year	7,500,000	0.2435	7,500,000	0.2435
Granted during the year	-	-	-	-
Exercised during the year	(7,500,000)	0.1492[1]	-	-
Balance at end of year	-	-	7,500,000	0.2435

Note: 1. The exercise price of the CEOSOP options changed during the year as a result of the application of ASX Listing Rule 6.22 following the Company's entitlement offer announced in June 2016. The exercise price for all outstanding options was subsequently reduced by 9.43 cents each effective 22 July 2016.

There were no option issues under the CEOSOP during the year (2016: nil) and the CEOSOP is not expected to be utilised going forward.

Option modification

The exercise price for all options on issue under the CEOSOP were changed in accordance with ASX Listing Rule 6.22 following the Company's pro-rata entitlements issue announced in June 2016. The exercise price change was effective 22 July 2016. As all the options had vested, the change in the intrinsic value was considered to equal the change in the exercise price. The fair increment was therefore $707,250 which was expensed in the current year.

Shares granted to employees

Under the ESLS, 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 recognized 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 2016	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED OR FORFEITED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2017	VALUE OF OPTIONS AT GRANT DATE $	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2017										
Unlisted shares	8 Sep 14	8 Sep 19	$0.7636	1,092,063	-	-	-	1,092,063	344,000	219,406
Unlisted shares	4 Dec 14	4 Dec 19	$0.6815	3,823,529	-	-	-	3,823,529	845,000	169,000
Unlisted shares	2 Feb 15	2 Feb 20	$0.6163	833,003	-	-	-	833,003	210,000	42,000
Unlisted shares	3 Aug 15	31 Aug 20	$1.1000	12,478,136	-	(84,999)	(1,618,946)	10,774,191	4,786,049[1]	1,397,215
Unlisted shares	5 Aug 15	31 Aug 20	$1.1538	974,997	-	-	-	974,997	432,996	145,432
Unlisted shares	24 Aug 15	31 Aug 20	$1.1297	2,231,344	-	-	-	2,231,344	633,032	220,062
Unlisted shares	11 Nov 15	31 Aug 20	$1.0200	1,079,772	-	-	-	1,079,772	423,811	160,079
Unlisted shares	11 Nov 15	31 Aug 20	$1.0460	524,070	-	-	-	524,070	200,771	75,761
Unlisted shares	4 Dec 15	31 Aug 20	$1.2300	2,553,496	-	-	-	2,553,496	1,237,169	480,044
Unlisted shares	11 Aug 16	31 Jul 21	$2.0100	-	18,747,036	-	(724,119))	18,022,917	12,366,621[1]	3,736,426
Unlisted shares	26 Sep 16	31 Jul 21	$1.9558	-	427,000	-	-	427,000	288,024	74,572
Unlisted shares	11 Oct 16	31 Jul 21	$2.0000	-	242,000	-	-	242,000	140,965	34,429
Unlisted shares	25 Oct 16	31 Jul 21	$1.9139	-	186,779	-	-	186,779	92,897	21,434
Unlisted shares	6 Dec 16	31 Jul 21	$1.5760	-	2,242,005	-	-	2,242,005	949,815	182,167
Unlisted shares	3 Jan 17	31 Jan 22	$1.3720	-	3,378,000	-	-	3,378,000	1,635,715	255,659
Unlisted shares	9 Feb 17	31 Jan 22	$1.2770	-	1,548,938	-	-	1,548,938	822,562	105,693
				25,590,410	26,771,758	(84,999)	(2,343,065)	49,934,104	25,409,427	7,319,379

Note 1. Original value at grant date reduced for value of forfeitures.

	GRANT DATE	EXPIRY DATE	LOAN VALUE PER SHARE	NUMBER HELD AT 1 JULY 2015	NUMBER GRANTED DURING YEAR	NUMBER EXERCISED DURING YEAR	NUMBER LAPSED OR FORFEITED DURING THE YEAR	NUMBER HELD AT 30 JUNE 2016	VALUE OF OPTIONS AT GRANT DATE $	VALUE OF OPTIONS INCLUDED IN COMPENSATION FOR THE YEAR $
Year ended 30 June 2016										
Unlisted shares	8 Sep 14	8 Sep 19	$0.7636	1,092,063	-	-	-	1,092,063	344,000	68,800
Unlisted shares	4 Dec 14	4 Dec 19	$0.6815	3,823,529	-	-	-	3,823,529	845,000	169,000
Unlisted shares	2 Feb 15	2 Feb 20	$0.6163	833,003	-	-	-	833,003	210,000	42,000
Unlisted shares	3 Aug 15	31 Aug 20	$1.1000	-	12,578,136	-	(100,000)	12,478,136	5,516,584	1,686,517
Unlisted shares	5 Aug 15	31 Aug 20	$1.1538	-	974,997	-	-	974,997	432,996	131,487
Unlisted shares	24 Aug 15	31 Aug 20	$1.1297	-	2,231,344	-	-	2,231,344	633,032	187,505
Unlisted shares	11 Nov 15	31 Aug 20	$1.0200	-	1,079,772	-	-	1,079,772	423,811	91,662
Unlisted shares	11 Nov 15	31 Aug 20	$1.0460	-	524,070	-	-	524,070	200,771	48,155
Unlisted shares	4 Dec 15	31 Aug 20	$1.2300	-	2,553,496	-	-	2,553,496	1,237,169	274,875
				5,748,595	19,941,815	-	(100,000)	25,590,410	9,843,363	2,700,001

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 initial testing date.

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

The shares issued during the current period have a common testing/vest date with the testing/vesting date being 1 July each year. Shares issued in the pcp are tested on the anniversaries of the grant date.

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 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 able to be 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 11 AUG 2016			LTI SHARES GRANTED 26 SEP 2016			LTI SHARES GRANTED 11 OCT 2016		
	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)	3,749,407	5,624,111	9,373,518	85,400	128,100	213,500	48,400	72,600	121,000
Monte Carlo Simulation model fair value	$0.5605	$0.6740	$0.7416	$0.5495	$0.6638	$0.7310	$0.4445	$0.5700	$0.6452
Share price at grant date	$2.03	$2.03	$2.03	$2.00	$2.00	$2.00	$1.91	$1.91	$1.91
Exercise price	$2.01	$2.01	$2.01	$1.9558	$1.9558	$1.9558	$2.00	$2.00	$2.00
Expected volatility	45%	45%	45%	45%	45%	45%	45%	45%	45%
Expected option life	2.5yrs	2.8yrs	3.2yrs	2.5yrs	2.8yrs	3.2yrs	2.5yrs	2.8yrs	3.2yrs
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free rate	1.51%	1.51%	1.51%	1.72%	1.72%	1.72%	1.84%	1.84%	1.84%

	LTI SHARES GRANTED 25 OCT 2016			LTI SHARES GRANTED 6 DEC 2016			LTI SHARES GRANTED 3 JAN 2017		
	TRANCHE 1	TRANCHE 2	TRANCHE 3	TRANCHE 1	TRANCHE 3	TRANCHE 3	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of shares (treated as options for accounting)	37,356	56,034	93,390	448,401	672,602	1,121,003	675,600	1,013,400	1,689,000
Monte Carlo Simulation model fair value	$0.3602	$0.4842	$0.5601	$0.3070	$0.4126	$0.4770	$0.3988	$0.4723	$0.5256
Share price at grant date	$1.755	$1.755	$1.755	$1.475	$1.475	$1.475	$1.38	$1.38	$1.38
Exercise price	$1.9139	$1.9139	$1.9139	$1.576	$1.576	$1.576	$1.372	$1.372	$1.372
Expected volatility	45%	45%	45%	45%	45%	45%	45%	45%	45%
Expected option life	2.5yrs	2.8yrs	3.2yrs	2.5yrs	2.8yrs	3.2yrs	2.6yrs	3.0yrs	3.4yrs
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free rate	1.86%	1.86%	1.86%	2.23%	2.23%	2.23%	1.95%	1.95%	1.95%

	LTI SHARES GRANTED 9 FEB 2017		
	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of shares (treated as options for accounting)	309,788	464,681	774,469
Monte Carlo Simulation model fair value	$0.4567	$0.5212	$0.5667
Share price at grant date	$1.40	$1.40	$1.40
Exercise price	$1.277	$1.277	$1.277
Expected volatility	45%	45%	45%
Expected option life	2.6yrs	3.0yrs	3.4yrs
Dividend yield	0%	0%	0%
Risk-free rate	1.84%	1.84%	1.84%

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 also takes into account 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

	2017 $'000	2016 $'000
Assets		
Current assets	20,288	19,977
Non-current assets	1,423,663	297,110
Total assets	1,443,951	317,087
Liabilities		
Current liabilities	2,072	17,926
Non-current liabilities	339,85	76,885
Total liabilities	341,924	94,811
Net assets	1,102,027	222,276
Equity		
Issued capital	1,130,404	263,161
Reserves	14,706	6,134
Accumulated losses	(43,083)	(47,019)
Total equity	1,102,027	222,276

Financial performance

	2017 $'000	2016 $'000
Profit/(Loss) for the year	4,798	(5,888)
Other comprehensive income	2,279	(864)
Total comprehensive income	7,077	(6,752)

The parent entity has lease commitments of $980,000 at 30 June 2017 (2016: $1,280,000).

NOTE 28 – COMMITMENTS AND CONTINGENCIES

A. Commitments

Leasing commitments

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

	2017 $'000	2016 $'000
Within one year	3,024	982
After one year but not more than five years	7,310	1,860
After five years	-	235
Total minimum lease payments	10,334	3,077

Capital Commitments

The Group had $40.8m of contractual obligations for the purchase of capital equipment as at 30 June 2017 (2016: $3.9m).

The Company announced plans to upgrade and expand the US manufacturing facilities as well as an upgrade of the Australian facilities. This work commenced in FY16, continued during FY17 and will be completed in FY18.

B. Contingencies

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 legal proceedings in 2017 where legal claims were brought against the Company seeking damages or other remedies

Mayne Pharma Inc received a subpoena from the Antitrust Division of the US Department of Justice (DOJ) and the Office of the Attorney General in the State of Connecticut in FY16 seeking information relating to the marketing, pricing and sales of select generic products, and the investigation continued in FY17. Mayne Pharma is cooperating with this investigation which it believes to be part of a broader inquiry into industry practices. Mayne Pharma Inc has been sued alongside other generic pharmaceutical companies in a number of civil complaints alleging anticompetitive conduct in the doxycycline hyclate delayed-release market. Several of these cases have been consolidated into multidistrict litigation pending in the Eastern District of Pennsylvania. The claims 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.

Mayne Pharma Inc and a number of other pharmaceutical companies have been sued in class action complaints in California 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. The claims 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.

NOTE 29 – DIVIDENDS

No dividends were paid or declared in the year ended 30 June 2017 (2016: nil).

Franking credit balance

	2017 $'000	2016 $'000
Opening balance	8,230	3,384
Franking credits arising from payments	14,835	4,846
Franking credits that will arise from the payment / (refunds) of income tax as at the end of the financial year	(2,213)	12,319
Franking credits available for future reporting periods	20,852	20,549

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 2017 (2016; 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 in the event that 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 2017 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	
	2017 $'000	2016 $'000
Continuing operations		
Sale of goods	64,688	103,242
Services revenue	10,349	10,284
License fee income	53	391
Royalties revenue	858	1,090
Revenue	**75,948**	**115,007**
Cost of sales	(33,154)	(33,359)
Gross profit	**42,794**	**81,648**
Other income	56,281	14,511
Research and development expenses	(4,399)	(3,625)
Marketing expenses and distribution expenses	(5,648)	(3,929)
Amortisation expenses	(6,097)	(7,845)
Administration expenses and other expenses	(25,788)	(25,855)
Finance costs	(11,496)	(2,438)
Fair value movement in earn-out liability	(132)	1,001
Acquisition costs	(1,124)	(280)
Profit before income tax	**44,392**	**53,189**
Income tax (expense)/benefit	(9,559)	(18,312)
Net profit from continuing operations after income tax	**34,833**	**34,877**
Other comprehensive income for the period, net of tax	2,279	(864)
Total comprehensive income for the period attributable to owners of the parent	**37,112**	**34,013**

	2017 $'000	2016 $'000
Retained earnings at the beginning of the financial year	48,026	13,149
Profit for the period	34,833	34,877
Retained earnings at the end of the financial year	**82,859**	**48,026**

(b) Consolidated Statement of Financial Position

Set out below is a Consolidated Statement of Financial Position as at 30 June 2017 of the closed group consisting of the Company and MPIPL.

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	22,522	27,036
Trade and other receivables	7,059	7,100
Inventories	12,835	12,406
Other current assets	4,331	660
Total current assets	**46,747**	**47,202**
Non-current assets		
Related party receivables	1,083,047	188,556
Investment in subsidiaries	332,066	68,790
Property, plant and equipment	39,462	26,149
Deferred tax assets	5,518	3,465
Intangible assets and goodwill	84,974	85,978
Total non-current assets	**1,545,067**	**372,938**
Total assets	**1,591,814**	**420,140**
Current liabilities		
Trade and other payables	10,349	9,325
Income tax payable	-	12,308
Interest-bearing loans and borrowings	13,011	-
Other financial liabilities	-	1,344
Provisions	3,664	3,273
Total current liabilities	**27,024**	**26,250**
Non-current liabilities		
Interest-bearing loans and borrowings	327,039	76,163
Provisions	1,662	1,451
Deferred tax liabilities	8,119	-
Total non-current liabilities	**336,820**	**77,814**
Total liabilities	**363,844**	**103,864**
Net assets	**1,227,970**	**316,276**
Equity		
Contributed equity	1,130,404	262,191
Reserves	14,707	6,059
Retained earnings/(accumulated losses)	82,859	48,026
Total equity	**1,227,970**	**316,276**

NOTE 32 – EVENTS SUBSEQUENT TO THE REPORTING PERIOD

No 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 Consolidated Entity.

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..

(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 currently recognised A$10.3m of undiscounted operating lease commitments as at 30 June 2017 (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.

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 2017 are in accordance with the Corporations Act 2001, including:

  (i) Giving a true and fair view of its financial position as at 30 June 2017 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.

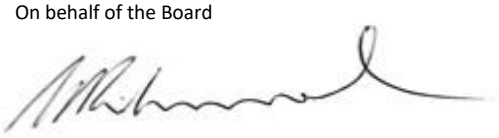
(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(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 2017.

On behalf of the Board



Mr Scott Richards
Managing Director and CEO

Dated at Melbourne, Australia this 30th day of August 2017.

INDEPENDENT AUDITOR'S REPORT

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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 2017, 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 2017 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 Repor*t 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.

Building a better working world

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 in many cases occurs through wholesale distributors. The ultimate net selling price is determined based on the contractual arrangements that the Group has with indirect customers such as retail pharmacy chains and the ultimate patient's insurer or other payment programs. 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, 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 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 $164.2 million (equivalent to US$126.2 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 to the financial report.in Notes 9 and 15 to the financial report.	We understood the process and controls related to the recording of gross to net sales adjustments and the estimation of related accruals. 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. We obtained the reconciliation of each accrual and 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 obtained and tested the mathematical accuracy as well as the data integrity of the calculations. In addition we performed the following procedures: ▸ 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; and ▸ Based on the historical data and trends we, a) 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; b) performed analytics and assessed actual claims made in previous periods to evaluate the Group's historical accuracy in estimating the gross to net sales adjustments; c) assessed claims made subsequent to balance date and considered whether these were appropriately treated at reporting date; and d) 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.

Building a better working world

Carrying value of intangible assets including goodwill

Why significant	How our audit addressed the key audit matter
As at 30 June 2017, the Group held $1,235.4 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. Except for goodwill, certain in-process development expenditure and marketing and distribution rights of $261.9 million, all other intangible assets are finite useful lived assets. The Group performs an annual impairment assessment of indefinite lived intangible assets including finite lived intangible assets if there are indicators of impairment. These are assessed either at an individual asset basis or in the Cash Generating Unit ("CGUs") to which the assets belong to. A possible impairment indicator exists at reporting date 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. Note 14 to the financial report provides disclosure on the Group's impairment assessments and highlights the impact of reasonably possible changes to key assumptions as required by AASB 136 Impairment of Assets.	In obtaining sufficient audit evidence we assessed the Group's determination of impairment indicators and of CGUs, obtained the Group's value-in-use models, tested the mathematical accuracy of these 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 audit procedures. In respect of the Group's impairment assessment for indefinite lived assets and finite lived assets with impairment indicators, including goodwill at the relevant CGUs, and excluding in-process development expenditure, we: ▸ 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; ▸ Considered the implied EBITDA carrying amount and recoverable amount multiples of each CGU against the trading EBITDA multiples of other comparable companies for each respective CGU; and ▸ 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. In respect of the Group's impairment assessment for capitalised in-process development expenditure, we: ▸ 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. We also assessed the adequacy of disclosures made in the financial report as required by Australian Accounting Standard - AASB 136 Impairment of Assets.

Building a better working world

Capitalisation of in-process development expenditure

Why significant	How our audit addressed the key audit matter
The Group held $91.6 million in capitalised in-process development expenditure as at 30 June 2017. 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 is 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 regulator 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 to the financial report for disclosure relating to capitalised development costs.	We understood the process and controls related to the identification, initial and ongoing assessment and recording of development expenditure specific to relevant internal projects. 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; ▸ Tested a sample of costs capitalised, including salaries and overhead costs, to timesheets and other supporting documentation and assessed whether these were in accordance with AASB 138 Intangible Assets; ▸ In respect of projects that are no longer considered viable, we checked that 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 disclosures made in the financial report as required by Australian Accounting Standard – AASB 138 Intangible Assets.

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 2017 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 accordingly we do not and will not express any form of assurance conclusion thereon.

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 31 to 39 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Mayne Pharma Group Limited for the year ended 30 June 2017, 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 C. Butler
Partner
30 August 2017

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 4 October 2017.

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	2,179	10.0%	1,328,783	0.1%	-	-
1,001 to 5,000	5,769	26.4%	17,833,908	1.2%	-	-
5,001 to 10,000	4,289	19.6%	34,080,690	2.2%	-	-
10,001 to 100,000	8,418	38.5%	265,620,318	17.3%	12	1,129,000
100,001 and over	1,238	5.7%	1,213,760,552	79.2%	32	13,965,000
Total	21,893	100%	1,532,624,251	100%	44	15,094,000

Included in the above total are 1,277 shareholders holding less than a marketable parcel of 758 shares.

OPTIONS

There are 15,094,000 options on issue held by 44 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	289,921,036	18.9
MR BRUCE MATHIESON AND RELATED ENTITIES	98,777,583	6.4
J P MORGAN NOMINEES AUSTRALIA LIMITED	98,618,064	6.4
CITICORP NOMINEES PTY LIMITED	34,300,021	2.2
NATIONAL NOMINEES LIMITED	33,452,730	2.2
BNP PARIBAS NOMS PTY LTD	25,592,385	1.7
MR SCOTT RICHARDS AND RELATED ENTITIES	25,487,594	1.7
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	15,833,001	1.0
IVL GROUP PTY LTD	15,000,000	1.0
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	14,353,702	0.9
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	12,343,597	0.8
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
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	7,922,747	0.5
MR RICHARD SMITH + MRS JOAN SIMPSON SMITH <R & JS SMITH 67A A/C>	7,900,000	0.5
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	7,815,433	0.5
R & J SMITH SHAREHOLDING PTY LTD <R & J SMITH SHAREHOLDING A/C>	7,587,660	0.5
SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA>	7,566,582	0.5
MR WILLIAM HODGES AND RELATED ENTITIES	6,739,554	0.4
DR ROGER ASTON	5,620,694	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	7.4%
Mr Bruce Mathieson and related entities	6.4%

INTELLECTUAL PROPERTY & GLOSSARY

Astrix®, Doryx®, Eryc®, Fabior®, Kapanol®, Lozanoc®, Luxiq®, Magnoplasm®, Myxazole®, Olux-E®, Sorilux® and SUBA® are registered trademarks of the Consolidated Entity. Acticlate®, BUPAP®, Myring®, Noxafil®, Quartette® and Tazorac® are registered trademarks of third parties.

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.

CORPORATE INFORMATION

DIRECTORS:	Mr Roger Corbett, AO (Chairman) Mr Scott Richards (Managing Director and CEO) Hon. Ron Best Mr Bruce Mathieson Mr Ian Scholes Mr William (Phil) Hodges Prof Bruce Robinson Ms Nancy Dolan
COMPANY SECRETARY:	Mr Nick Freeman
INVESTOR RELATIONS:	Ms Lisa Pendlebury (Vice President Investor Relations & Communications) +61 3 8614 7777
REGISTERED OFFICE:	1538 Main North Road, Salisbury South South Australia 5106 +61 8 8209 2666
PRINCIPAL PLACES OF BUSINESS:	1538 Main North Road, Salisbury South South Australia 5106 1240 Sugg Parkway Greenville North Carolina 27834 USA
AUDITORS:	EY Australia 8 Exhibition Street Melbourne VIC 3000
SOLICITORS:	Minter Ellison Lawyers Rialto Towers 525 Collins Street Melbourne VIC 3000
SHARE REGISTRY:	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Telephone: (03) 9415 4184 Facsimile: (03) 9473 2500
BANKERS:	Westpac 150 Collins Street Melbourne VIC 3000 National Australia Bank Limited 500 Bourke Street Melbourne VIC 3000
ABN:	76 115 832 963
DOMICILE AND COUNTRY OF INCORPORATION:	Australia
LEGAL FORM OF ENTITY:	Public company listed on the Australian Securities Exchange (MYX)

Mayne Pharma Group Limited
ABN 76 115 832 963
maynepharma.com