Friday, 23 February 2018

Manager, Company Announcements
ASX Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

Via E-Lodgement

Dear Sir/Madam

Mayne Pharma Group Limited
Interim Results

Please find attached the Appendix 4D Half Year Report, Directors' Report, the Financial Report and Auditor's Independent Review Report relating to the results for the half-year ended 31 December 2017.

This information should be read in conjunction with Mayne Pharma Group Limited's 2017 Annual Report.

This announcement comprises the information required by ASX Listing Rule 4.2A and the statement required by Rule 4.2C.2.

Yours faithfully,
Mayne Pharma Group Limited

Nick Freeman
Group CFO & Company Secretary

RESULTS FOR ANNOUNCEMENT TO THE MARKET
APPENDIX 4D – HALF YEAR REPORT

		% Change	Dec 2017 $'000	Dec 2016 $'000
Revenue from ordinary activities	down	(17.5%)	**243,256**	294,831
Profit / (loss) from ordinary activities before income tax expense	down	N/A	**(210,843)**	90,811
Profit / (loss) from ordinary activities after income tax expense	down	N/A	**(173,136)**	71,323
Attributable to: Equity holders of the parent Non-controlling interests	down		(174,206) 1,070	72,736 (1,413)
	down	N/A	**(173,136)**	71,323
Other comprehensive income after income tax expense			**(15,295)**	57,781
Total comprehensive income after income tax expense			**(188,517)**	129,104
Attributable to: Equity holders of the parent Non-controlling interests			(189,501) 984	130,245 (1,141)
			(188,517)	129,104

Net tangible assets per ordinary share	**$0.078**	$0.051

	2017 Cents	2016 Cents
Basic earnings per share	**(11.9)**	5.15
Diluted earnings per share	**(11.9)**	5.03
Final dividend in respect of the financial year ended 30 June per share	**Nil**	Nil
Interim dividend in respect of the period ended 31 December per share	**Nil**	Nil

No dividend has been declared in relation to the period ended 31 December 2017.

Refer to the Directors' Report and the accompanying ASX announcement dated 23 February 2018 for a brief commentary on the results.

mayne pharma

Building our tomorrow

MAYNE PHARMA GROUP LIMITED
ABN 76 115 832 963

HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

(Prior comparable period: Half-year ended 31 December 2016)

CONTENTS

CORPORATE INFORMATION

DIRECTORS:	Mr Roger Corbett, AO (Chairman) Mr Scott Richards (Managing Director and CEO) Hon. Ron Best Ms Nancy Dolan Mr William (Phil) Hodges Mr Bruce Mathieson Prof Bruce Robinson, AM Mr Ian Scholes
COMPANY SECRETARY:	Mr Nick Freeman
REGISTERED OFFICE	1538 Main North Road Salisbury South South Australia 5106
PRINCIPAL PLACES OF BUSINESS:	1538 Main North Road Salisbury South South Australia 5106 1240 Sugg Parkway Greenville North Carolina 27834 USA
AUDITORS:	Ernst & Young 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
BANKER:	Westpac 150 Collins 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)

DIRECTORS' REPORT

The Directors of Mayne Pharma Group Limited ("the Company" or "Mayne Pharma") submit their report for the half-year ended 31 December 2017.

DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise noted.

Mr Roger Corbett, AO, Chairman
Mr Scott Richards, Managing Director and CEO
The Hon Ron Best
Ms Nancy Dolan
Mr William (Phil) Hodges
Mr Bruce Mathieson
Prof Bruce Robinson, AM
Mr Ian Scholes

REVIEW OF RESULTS

The Consolidated Entity's net loss attributable to members of the Company for the half-year ended 31 December 2017 was a loss of $174.2m (half-year ended 31 December 2016: profit of $72.7m).

Set out below is a summary of the financial performance attributable to Mayne Pharma shareholders for the six months ended 31 December 2017. 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.

The reconciliation of reported results and adjusted results is as follows:

SALES AND PROFIT	REPORTED ATTRIBUTABLE TO MEMBERS DEC 2017 (1) $M'S	SBD - DORYX RETURNS (2) $M'S	GPD – STOCK ADJUSTMENTS (3) $M'S	RESTRUCTURING EXPENSES (4) $M'S	ASSET IMPAIRMENTS (5) $M'S	HPPI – MAYNE PHARMA'S SHARE (6) $M'S	US TAX ITEMS (7) $M'S	ADJUSTED DEC 2017 $M'S
Revenue	243.3	12.4	-	-	-	-	-	**255.6**
Gross profit	95.9	12.4	17.3	3.1	-	-	-	**128.7**
Gross profit %	*39.4%*							*50.3%*
EBITDA	**23.0**	13.3	17.3	14.0	-	2.6	-	**70.2**
Depreciation / Amortisation	(40.8)	-	-	-	-	0.2	-	(40.6)
Asset impairments	(183.5)	-	-	-	183.5	-	-	-
PBIT	(201.3)	13.3	17.3	14.0	183.5	2.8	-	**29.6**
Net Interest	(8.4)	-	-	-	-	-	-	(8.4)
PBT	(209.7)	13.3	17.3	14.0	183.5	2.8	-	**21.2**
Income tax	35.5	(4.1)	(5.3)	(2.0)	(43.7)	(2.5)	17.0	**(5.1)**
PAT	(174.2)	9.2	12.0	12.0	139.8	0.3	17.0	**16.1**

(1) The values in the above table are values attributable to members of Mayne Pharma and hence include only Mayne Pharma's share of HPPI. The Consolidated Statement of Profit or Loss and Other Comprehensive Income and supporting notes such as note 5 for income tax include 100% of HPPI and hence differ from the above values.
(2) SBD – Doryx® returns – represents the abnormal level of Doryx product returns and sample write-offs due the loss of exclusivity on Doryx 50mg and 200mg tablets in May 2016.
(3) GPD – stock adjustments – represents the abnormal amount of inventory obsolescence, writedowns and sell through of short dated stock below cost.
(4) Restructuring expenses – represents expense relating to the cancellation of specific employee shares ($7.4m), onerous supply chain contracts and other expense management initiatives to lower the cost base.
(5) Asset impairments – intangible asset impairments relating to the change in the current and projected market dynamics for generic products.
(6) HPPI – Mayne Pharma's share of HPPI's EBITDA loss ($1.1m) plus the fair value loss ($1.5m) on restatement of the value of Mayne Pharma's HPPI warrants (after recording a fair value gain in 2H17).
(7) US tax items includes $13.7m for restatement of US related DTAs and DTLs due to the US corporate tax rate changes and $3.3m for tax losses for a US subsidiary not recognised as a deferred tax asset.

The non IFRS financial information is unaudited.

A more detailed analysis of the operating performance is included in the ASX Announcement and Results Presentation dated 23 February 2017.

Operating performance

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

Generic Products Division (GPD)

The Generic Products Division distributes generic pharmaceutical products in the United States (US).

Revenue decreased by 19% to $180.9m ($222.6m prior comparative period or "pcp") and gross profit decreased by 51% to $63.6m ($125.8m pcp) for the period. Excluding the abnormal stock adjustments and supplier onerous contracts, adjusted gross margin was $84.0m.

In US dollar terms, sales were down 16% to US$141.0m (US$167.8m pcp) driven by price deflation pressures. Dofetilide remains the largest generic product and grew 19% on pcp to US$33m. Doxycycline, budesonide and carbidopa/levodopa grew strongly, offset by increased competitiveness across the oral contraceptive portfolio. Gross margin was impacted by US$13.5m of stock adjustments which include abnormal stock obsolescence and sell through of short dated stock below cost following the significant investment in inventory to support the Teva portfolio acquisition.

Metrics Contract Services (MCS)

The Metrics Contract Services segment provides contract pharmaceutical development services to third party customers principally in the US.

Revenue increased by 6% to $29.7m ($28.1m pcp) and gross profit increased by 2% to $15.8m ($15.4m pcp) for the period.

In US dollar terms, MCS sales were up 9% to US$23.2m (pcp US$21.2m) driven by the investment in new production equipment and facilities which is attracting higher value, late-stage development work.

The opening of the new Greenville commercial manufacturing facility is expected to transition MCS from a project based revenue stream to include a mix of ongoing recurring revenue streams related to commercial manufacturing.

Specialty Brands Division (SBD)

The Specialty Brands Division distributes branded pharmaceutical products in the US.

Revenue decreased by 48% to $13.8m ($26.8m pcp) and gross profit decreased by 44% to $11.6m ($26.1m pcp) for the period. Excluding the abnormal Doryx® returns, adjusted revenue was $26.2m and adjusted gross profit was $23.9m.

In US dollar terms, SBD's revenue was down 47% to US$10.8m impacted by US$9m of Doryx returns which relate to the loss of exclusivity on Doryx 50mg and 200mg tablets.

Mayne Pharma International (MPI)

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

Revenue increased by 9% to $18.8m ($17.3m pcp) and gross profit increased by 33% to $5.0m ($3.8m pcp) for the period. Australian sales grew strongly driven by aspirin, itraconazole and injectables and international sales benefited from the renegotiation of the aspirin supply agreements.

Gross margin

Gross margin reported as a percentage of sales revenue was 39%. Gross margin adjusted for non-recurring items (refer table above) was 50% compared to 58% in the pcp due to price deflation in the US Generic market.

Expenses

Net research and development expense after qualifying capitalisation (of $19.2m) was $4.7m, a decrease in the expense of $0.5m (10%) on the pcp. This category includes HPPI research and development expense of $1.2m ($1.3m pcp).

Marketing and distribution expense was $27.9m, an increase of $2.4m (9%) on the pcp. The major increase was due to the expansion of the Specialty Brands sales team which doubled from 60 to 120 sales representatives.

Administration and other expenses were $82.4m, an increase of $11.5m (16%) on the pcp. This includes amortisation of intangible assets which was $37.1m, an increase of $8.3m on the pcp largely due a full six months amortisation for the Teva products acquisition in the current period and only five months in the pcp. Also included in administration and other expenses in the current period are the expenses relating to the cancelled employee shares ($7.4m) and other restructuring costs of $3.4m.

Intangible asset impairments recognised during the period totalled $183.5m, consisting of the following:

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

Finance expenses were $8.4m, an increase of $3.1m (59%) on the pcp as a result of increased borrowings supporting the Teva portfolio acquisition and the increased discount unwind relating to deferred consideration for asset acquisitions.

Tax

The tax benefit of $37.7m comprised:

- Current period income tax for the six months to 31 December 2017 of $4.2m; and
- A reduction of $41.9m relating to the movement in net tax deferred tax assets and liabilities.

The split between current and deferred tax has been influenced by the timing of assessable income compared to accounting income, particularly the treatment of gross to net sales adjustments and rebates in GPD and SBD.

REVIEW OF BALANCE SHEET

Cash

Cash decreased by $7.0m compared to 30 June 2017. Refer below for further commentary.

Inventory, receivables and trade payables

Receivables increased by $5.3m, inventory decreased by $17.8m and trade and other payables increased by $9.2m compared to 30 June 2017.

Intangible assets and goodwill

Intangible assets decreased by $216.8m compared to the balance at 30 June 2017. The movement comprised of:

- An increase of $19.2m for capitalised development costs;
- An increase of $1.9m for minor intangible additions;
- A decrease of $37.1m for amortisation;
- A decrease of $183.5m for impairments; and
- A decrease of $17.3m due to foreign currency translation as a result of the AUD / USD exchange rate increasing from 0.7686 at 30 June 2017 to 0.7806 at 31 December 2017.

Property, plant & equipment

Property, plant and equipment increased by $23.0m compared to the balance at 30 June 2017. The movement comprised of:

- An increase of $29.2m for additions which includes the capital works programs and general site maintenance capital expenditure;
- A decrease of $3.9m for depreciation; and
- A decrease of $2.3m 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 $359m from $340m at 30 June 2017 to partially fund the deferred and earn-out liabilities payments and the ongoing capital works programs.

Other financial liabilities

Other financial liabilities decreased by $17.7m from 30 June 2017 as a result of:

- An increase of $0.9m due to the non-cash unwinding of the discount for the various earn-out liabilities and deferred consideration liabilities;
- A decrease of $0.6m due to re-assessments of various earn-out liabilities;
- A decrease of $17.8m due to payments made for earn-outs and deferred settlements; and
- A decrease relating to foreign currency translation of $0.2m.

REVIEW OF CASH FLOWS

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

	Dec 2017 $M'S	Dec 2016 $M'S
Operating cash flow before working capital movements	39.2	107.8
Working capital release / (investment)	8.8	(174.9)
Net Operating cash flows	48.0	(67.1)

Cash on hand at 31 December 2017 (net of restricted cash held as security for letters of credit on issue) was $56.0m, representing a decrease of $7.1m from 30 June 2017. Notable cash flows during the period included:

- $39.6m payments for capital expenditure across the Group mainly relating to the facilities upgrades;
- $19.2m in capitalised development expenditure;
- Earn-out and deferred settlement payments totalling $17.8m; and
- Proceeds from borrowings of $23.7m (net of fees).

Dividend

The Directors have not declared an interim dividend in relation to the period ended 31 December 2017.

ROUNDING

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in this report and in the financial report. Amounts in this report and in the financial report have been rounded off in accordance with that Legislative Instrument to the nearest hundred thousand dollars or, in certain cases, to the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration is included on page 9 of the Financial Report.

EVENTS SUBSEQUENT TO REPORTING DATE

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

Signed in accordance with a resolution of the Directors.

Dated at Melbourne, this 23rd day of February 2018.

Scott Richards
Director

AUDITOR'S INDEPENDENCE DECLARATION

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

As lead auditor for the review of Mayne Pharma Group Limited for the half-year ended 31 December 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 review; and

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

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

Ernst & Young

Ashley Butler
Partner
Melbourne
23 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 $'000	31 December 2016 $'000
Sale of goods		208,590	261,335
Services revenue		34,150	32,966
License fee revenue		-	81
Royalties revenue		516	449
Revenue		**243,256**	**294,831**
Cost of sales	4	(147,370)	(123,657)
Gross profit		**95,886**	**171,174**
Other income	3	149	26,478
Research and development expenses		(4,660)	(5,169)
Marketing and distribution expenses		(27,875)	(25,462)
Administrative and other expenses	4	(82,429)	(70,898)
Asset impairments	10	(183,492)	-
Finance expenses	4	(8,422)	(5,312)
Profit / (loss) before income tax		(210,843)	90,811
Income tax expense	5	37,707	(19,488)
Net profit / (loss) for the period		(173,136)	71,323
Attributable to:			
Equity holders of the Parent		(174,206)	72,736
Non-controlling interests		1,070	(1,413)
		(173,136)	71,323
Other comprehensive income for the period, net of tax			
Items which may be reclassified to profit/loss			
Unrealised gain on cash flow hedges		2,120	3,741
Income tax effect		-	-
Exchange differences on translation		(17,415)	53,768
Income tax effect		-	-
Items that will not be reclassified to profit or loss in future periods			
Exchange differences on translation		(86)	272
Income tax effect		-	-
Total comprehensive income for the period		(188,517)	129,104
Attributable to:			
Equity holders of the Parent		(189,501)	130,245
Non-controlling interests		984	(1,141)
		(188,517)	129,104
Basic earnings per share		(11.9) cents	5.15 cents
Diluted earnings per share		(11.9) cents	5.03 cents

This statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	31 December 2017 $'000	30 June 2017 $'000
Current assets			
Cash and cash equivalents	6	55,957	63,027
Trade and other receivables	7	237,966	232,716
Inventories	8	88,586	106,394
Income tax receivable		11,509	7,972
Other financial assets		9,114	8,025
Other current assets		17,760	10,869
Total current assets		420,892	429,003
Non-current assets			
Property, plant and equipment	9	212,226	189,272
Deferred tax assets	5	78,269	61,204
Intangible assets and goodwill	10	1,018,603	1,235,441
Total non-current assets		1,309,098	1,485,917
Total assets		1,729,990	1,914,920
Current liabilities			
Trade and other payables	11	163,650	154,460
Interest-bearing loans and borrowings	12	7	13,124
Other financial liabilities	13	8,127	24,050
Provisions	14	14,346	8,261
Total current liabilities		186,130	199,895
Non-current liabilities			
Interest-bearing loans and borrowings	12	359,087	327,122
Other financial liabilities	13	15,129	16,905
Deferred tax liabilities	5	34,684	56,912
Provisions	14	1,820	1,662
Total non-current liabilities		410,720	402,601
Total liabilities		596,850	602,496
Net assets		1,133,140	1,312,424
Equity			
Contributed equity	15	1,129,725	1,130,404
Reserves		10,542	23,337
Retained Earnings		(16,697)	150,097
Equity attributable to equity holders of the Parent		1,123,570	1,303,838
Non-controlling interests		9,570	8,586
Total equity		1,133,140	1,312,424

This statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Contributed Equity $'000	Share-Based Payment Reserve $'000	Foreign Currency Translation Reserve $'000	Cash Flow Hedge Reserve $'000	Other Reserve $'000	Retained Earnings $'000	Total $000's	Non-Controlling Interests $000's	Total Equity $'000
Balance at 1 July 2017	1,130,404	14,890	11,052	1,415	(4,020)	150,097	1,303,838	8,586	1,312,424
Profit for the period	-	-	-	-	-	(174,206)	(174,206)	1,070	(173,136)
Other comprehensive income									
Foreign exchange translation	-	-	(17,415)	-	-	-	(17,415)	(86)	(17,501)
Cash flow hedge	-	-	-	2,120	-	-	2,120	-	2,120
Total comprehensive income	-	-	(17,415)	2,120	-	(174,206)	(189,501)	984	(188,517)
Transactions with owners in capacity as owners									
Shares issued (net of issue costs)	439	-	-	-	-	-	439	-	439
Share options exercised	399	(399)	-	-	-	-	-	-	-
Tax effect of employee share options	(1,517)	-	-	-	-	-	(1,517)	-	(1,517)
Share-based payments	-	10,311	-	-	-	-	10,311	-	10,311
Employee LTI shares cancelled reclassified to retained earnings	-	(7,412)	-	-	-	7,412	-	-	-
Balance at 31 December 2017	1,129,725	17,390	(6,363)	3,535	(4,020)	(16,697)	1,123,570	9,570	1,133,140
Balance at 1 July 2016	263,161	7,950	30,792	(864)	1,180	61,530	363,749	12,472	376,221
Profit for the period	-	-	-	-	-	72,736	72,736	(1,413)	71,323
Other comprehensive income									
Foreign exchange translation	-	-	53,768	-	-	-	53,768	272	54,040
Cash flow hedge	-	-	-	3,741	-	-	3,741	-	3,741
Total comprehensive income	-	-	53,768	3,741	-	72,736	130,245	(1,141)	129,104
Transactions with owners in capacity as owners									
Shares issued (net of issue costs)	861,895	-	-	-	-	-	861,895	-	861,895
Change in equity investment in subsidiary	-	-	-	-	(2,513)	-	(2,513)	490	(2,023)
Equity contributions by non-controlling interests	--	-	-	-	-	-	-	780	780
Share options exercised	1,785	(1,785)	-	-	-	-	-	-	-
Tax effect of employee share options	(1,510)	-	-	-	-	-	(1,510)	-	(1,510)
Share-based payments	-	6,194	-	-	-	-	6,194	-	6,194
Balance at 31 December 2016	1,125,331	12,359	84,560	2,877	(1,333)	134,266	1,358,060	12,601	1,370,661

This statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 $'000	31 December 2016 $'000
Cash flows from operating activities			
Receipts from customers		309,632	201,483
Payments to suppliers and employees		(243,115)	(259,771)
Interest received		36	221
Interest paid		(6,893)	(4,318)
Tax paid		(9,600)	(22,733)
Tax received		2,764	-
		52,824	(85,118)
Patent infringement settlement receipt		-	26,175
Payments for research and non-capitalised development expenditure		(3,950)	(4,591)
Restructuring, transaction and DOJ costs		(843)	(3,577)
Net cash flows from / (used in) operating activities	6	48,031	(67,111)
Cash flows from investing activities			
Payments for plant and equipment		(39,541)	(47,886)
Payments for intangible assets		(1,853)	(935,343)
Payments for capitalised development costs		(19,225)	(10,997)
Earn-out and deferred settlement payments		(17,849)	(4,481)
Net cash flows used in investing activities		(78,468)	(998,706)
Cash flows from financing activities			
Proceeds from issue of shares		441	890,252
Equity raising costs		(2)	(28,357)
Equity contributions from non-controlling interests		-	780
Repayment of borrowings		(187)	(183)
Proceeds from borrowings (net of fees)		23,738	234,282
Net cash flows from financing activities		23,990	1,096,773
Net increase/(decrease) in cash and cash equivalents		(6,447)	30,956
Cash and cash equivalents at beginning of period		63,027	47,481
Effect of foreign exchange changes on cash held in foreign currencies		(623)	2,383
Cash and cash equivalents at end of period	6	55,957	80,820

This statement should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The financial report for the half-year ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial report.

Under AASB 134 Interim Financial Reporting, measurement is generally made on an annual reporting period to date basis. However, it is recognised that the interim period is part of a larger annual reporting period not an independent reporting period. Accordingly, interim period income tax expense can be accrued using the estimated average annual effective income tax rate that would be applicable to expected total annual earnings.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2017 and considered together with any public announcements made by Mayne Pharma Group Limited during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations of the *ASX Listing Rules*.

Where required, items in the June 2017 and December 2016 comparatives have been reclassified to reflect the current presentation and enable better comparison between periods.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Changes in accounting policy

From 1 July 2017 the Group has adopted the relevant standards and interpretations mandatory for annual reports beginning on or after 1 July 2017. Adoption of the standards and interpretations did not have any effect on the financial position or performance of the Group.

New accounting standards and interpretations

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 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 $10.3m of undiscounted operating lease commitments as at 30 June 2017. 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.

2. SEGMENT REPORTING

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

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

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

Generic Products Division

The Generic Products operating segment's revenues and gross profit are derived principally from the distribution of generic pharmaceutical products in the US.

Metrics Contract Services

The Metrics Contract Services segment's revenue and gross profit are derived from providing contract pharmaceutical development services to third-party customers principally in the US.

Specialty Brands Division

The Specialty Brands operating segment's revenues and gross profit are derived principally from the distribution of branded pharmaceutical products in the US.

MPI

The MPI operating segment's revenues and gross profit are derived principally from the Australian manufacture and sale of branded and generic pharmaceutical product globally and provision of contract manufacturing services to third party customers within Australia.

	Generic Products	Metrics Contract Services	Specialty Brands	MPI	Total Consolidated
	$'000	$'000	$'000	$'000	$'000
Half Year ended 31 December 2017					
Sale of goods	180,919	-	13,849	13,822	208,590
Services income		29,728		4,422	34,150
Royalty income	-	-	-	516	516
Revenue	180,919	29,728	13,849	18,760	243,256
Cost of sales	(117,339)	(13,964)	(2,288)	(13,779)	(147,370)
Gross profit	63,580	15,764	11,561	4,981	95,886
Other income					149
Asset impairments					(183,492)
Amortisation of intangible assets					(37,087)
Other expenses (refer Statement of Profit or Loss and Other Comprehensive Income)					(86,299)
Profit before income tax					(210,843)
Income tax expense					37,707
Net profit for the period					(173,136)

	Generic Products	Metrics Contract Services	Specialty Brands	MPI	Total Consolidated
	$'000	$'000	$'000	$'000	$'000
Half Year ended 31 December 2016					
Sale of goods	222,634	-	26,829	11,872	261,335
Services income	-	28,105	-	4,861	32,966
License fee income	-	-	-	81	81
Royalty income	-	-	-	449	449
Revenue	222,634	28,105	26,829	17,263	294,831
Cost of sales	(96,796)	(12,660)	(688)	(13,513)	(123,657)
Gross profit	125,838	15,445	26,141	3,750	171,174
Other income					26,478
Amortisation of intangible assets					(28,815)
Other expenses (refer Statement of Profit or Loss and Other Comprehensive Income)					(78,026)
Profit before income tax					90,811
Income tax expense					(19,488)
Net profit for the period					71,323

Geographical segment information

Revenue from external customers	31 December 2017 $'000	31 December 2016 $'000
Australia	14,092	12,692
United States	224,494	277,570
Korea	1,653	1,872
Other	3,017	2,697
Total external revenue	**243,256**	294,831

Product information

Revenue by product group / service	31 December 2017 $'000	31 December 2016 $'000
Contract manufacturing	4,422	4,861
Analytical and formulation	29,728	28,105
Oral and other pharmaceuticals	208,590	261,416
Other revenue	516	449
Total external revenue	**243,256**	294,831

3. OTHER INCOME

	31 December 2017 $'000	31 December 2016 $'000
Interest income	36	221
Patent infringement settlement income	-	26,175
Other income	113	82
	149	26,478

The Patent infringement settlement income in the prior comparative period relates to the settlement agreement reached during the period with Forest Laboratories LLC ("Forest") following the Company's patent infringement lawsuit against Forest.

4. EXPENSES

	31 December 2017 $'000	31 December 2016 $'000
Finance expenses		
Interest expense	5,858	3,065
Unused line fees	1,035	1,238
Amortisation of borrowing costs	634	605
Change in fair value attributable to the unwinding of the discounting of the earn-out liabilities	895	404
Total finance expense	**8,422**	5,312
Depreciation [1]	**3,919**	3,169
Cost of sales include the following:		
Inventory write-offs	8,393	777
Provision for inventory obsolescence	9,380	4,347
Inventory net realisable value adjustments	5,124	-
Onerous supplier contracts	3,097	-
Employee benefits expense [2]		
Wages and salaries	49,858	39,856
Superannuation expense	2,205	1,794
Share-based payments (includes the expense for cancelled shares) [3] [4]	10,311	6,194
Other employee benefits expense	4,076	4,093
Total employee benefits expense	**66,450**	51,937
Administration and other expenses include the following:		
Foreign exchange loss	1,001	2,123
Fair value restatement of HPPI warrants	1,541	-
Transaction related costs	-	2,669
DOJ related costs	264	908
Share-based payments additional expense due to the rights issue [3]	-	1,971
Share based payments expense for cancelled shares [4]	7,412	-
Restructuring costs	3,450	-
Amortisation of intangible assets	37,087	28,815
Movement in undiscounted fair value of earn-out liabilities	(631)	132
All other administration and other expenses	32,305	34,280
Total Administration and other expenses	**82,429**	70,898

Notes:
1. Depreciation expense is included in cost of sales ($3,032,000) and various expense categories ($887,000).
2. Employee benefit expense is included in various expense categories and cost of sales.
3. Share-based payments in the pcp included $1,971,000 expense relating to the additional expense incurred due to the change in the exercise price of employee options (9.43 cents each) due to the 1 for 1.725 rights issue to fund the Teva products acquisition in accordance with ASX Listing Rule 6.22.
4. During the current period, employees agreed to cancel 16.1 million employee LTI shares which had an exercise price in excess of $1.90. On cancellation, the Company recognised all remaining expense for the cancelled shares.

5. INCOME TAX

(a) The major components of income tax expense are:

	31 December 2017 $'000	31 December 2016 $'000
Current income tax		
Current income tax	(4,156)	(68,162)
Adjustment in respect of current income tax of previous years	836	795
Deferred income tax		
Relating to movement in net tax deferred tax assets and liabilities	41,027	47,879
Income tax credit / (expense) in the consolidated statement of profit or loss and other comprehensive income	37,707	(19,488)

(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

	31 December 2017 $'000	31 December 2016 $'000
The prima facie tax on operating (loss) / profit differs from the income tax provided in the accounts as follows:		
Profit / (loss) before income tax	(210,843)	90,811
Prima facie tax credit / (expense) at 30%	63,253	(27,243)
Effect of R&D concessions	566	367
Over provision in respect of prior years	836	795
Non-assessable items	5,520	12,790
Non-deductible expenses for tax purposes		
Amortisation	(812)	(926)
Share-based payments	(3,547)	(493)
Asset impairments - goodwill	(11,343)	-
Other non-deductible expenses	(2,911)	(1,816)
Effect of different tax rate in US	(4,407)	(2,000)
US State taxes	6,473	(2,097)
US Domestic Production Activity Deduction	-	2,726
Tax losses not recognised	(4,631)	(805)
Restatement of DTA & DTL re US tax rate changes	(11,290)	(786)
Income tax credit / (expense)	37,707	(19,488)

US federal corporate tax changes.

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

As a consequence of the US federal corporate tax rate changes, US denoted deferred tax assets and US denoted deferred tax liabilities that are expected to reverse in the second half of FY18 have been restated using the 28.1% rate and US denoted deferred tax assets and US denoted deferred tax liabilities that are expected to reverse in FY19 or beyond have been restated using the 21% rate. In gross terms, $56m of (net) deferred tax assets have been tax effected using the 28.1% rate as these are expected to reverse in the second half of FY18. As Mayne Pharma has a net US denoted deferred tax asset, this has resulted in an additional tax expense - the Restatement of DTA & DTL re

US tax rate changes tax expense as disclosed above. This restatement includes changes to the blended US state corporate income tax rate which varies depending on activity and tax rates in the US states in which Mayne Pharma operates.

C. Recognised deferred tax assets and liabilities

	31 December 2017 $'000	30 June 2017 $'000
Deferred tax assets		
Intangible assets	29,982	7,131
Provisions	6,003	5,245
Payables	17,220	45,957
Inventory	10,066	12,299
Carry forward tax losses and R&D credits	16,455	121
Employee share options	660	3,512
US state taxes	7,230	4,628
Equity raising costs	432	590
Other	754	1,194
	88,802	80,677
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Assets	88,802	80,677
Set off of Deferred Tax Liabilities	(10,533)	(19,473)
Net Deferred Tax Assets[1]	**78,269**	61,204
Deferred tax liabilities		
Property, plant and equipment	8,580	6,339
Intangible assets	31,339	50,847
US State taxes	2,353	6,215
Other receivables and prepayments	839	10,643
Unrealised foreign exchange gains	2,088	2,275
Other	18	66
	45,217	76,385
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Liabilities	45,217	76,385
Set off against Deferred Tax Assets	(10,533)	(19,473)
Net Deferred Tax Liabilities[2]	**34,684**	56,912
Tax loss of wholly owned subsidiary not recognised as an asset	**3,258**	-

Notes: 1. Represents Australian and US Deferred Tax Assets that cannot be offset against US Deferred Tax Liabilities.
2. Represents US Deferred Tax Liabilities that cannot be offset against Australian Deferred Tax Assets.

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

6. CASH AND CASH EQUIVALENTS

(a) For the purpose of the consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	31 December 2017 $'000	30 June 2017 $'000
Cash at bank and in hand	55,957	63,027

(b) Reconciliation of net profit after income tax to net cash flow from operating activities

	31 December 2017 $'000	31 December 2016 $'000
Net profit / (loss) after income tax	(173,136)	71,323
Adjustments for:		
Depreciation and amortisation	41,640	32,592
Share-based payments	10,311	6,194
Movement in earn-out liabilities	264	536
Fair value movement HPPI warrants	1,541	-
Asset impairments	183,492	-
Net unrealised foreign exchange differences	(304)	(3,938)
Non cash provisions – inventory and restructuring	19,952	4,347
Changes in tax balances:		
(Increase) in deferred tax assets	(10,002)	(49,512)
Decrease in current and deferred tax liabilities	(34,541)	46,267
Operating cash flows before working capital movements	39,217	107,809
Changes in working capital:		
(Increase) in receivables	(8,733)	(115,377)
Decrease / (Increase) in inventories	1,566	(70,043)
(Increase) in other assets	(6,503)	(5,535)
Increase in creditors	21,606	16,362
Increase / (Decrease) in provisions	878	(327)
Total working capital movements	8,814	(174,920)
Net cash flow from / (used in) operating activities	48,031	(67,111)

7. TRADE AND OTHER RECEIVABLES

	31 December 2017 $'000	30 June 2017 $'000
Trade receivables (net of charge-backs)	236,363	229,895
Trade receivables – profit share	988	1,872
Provision for impairment	(1,381)	(1,323)
Other receivables	1,996	2,272
	237,966	232,716

8. INVENTORIES

	31 December 2017 $'000	30 June 2017 $'000
Raw materials and stores at cost	26,424	25,682
Work in progress at cost	3,196	2,293
Finished goods at lower of cost and net realisable value	58,966	78,419
	88,586	106,394

9. PROPERTY, PLANT AND EQUIPMENT

	LAND $'000	BUILDINGS $'000	PLANT AND EQUIPMENT $'000	CAPITAL UNDER CONSTRUCTION $'000	TOTAL $'000
Six months ended 31 December 2017					
Balance at beginning of period net of accumulated depreciation	9,132	27,687	33,545	118,908	189,272
Additions	-	-	4,664	24,545	29,209
Depreciation charge for year	-	(666)	(3,253)	-	(3,919)
Foreign currency restatement	(70)	(309)	(344)	(1,613)	(2,336)
Balance at end of year net of accumulated depreciation	9,062	26,712	34,612	141,840	212,226
As at 31 December 2017					
At cost	9,062	32,565	63,363	141,840	246,830
Accumulated depreciation	-	(5,853)	(28,751)	-	(34,604)
Net carrying amount	9,062	26,712	34,612	141,840	212,226

10. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Customer Contracts, Customer Relationships Product Rights & Intellectual Property	Development Expenditure	Marketing & Distribution Rights	Trade Names	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Six months ended 31 December 2017						
Balance at beginning of the period net of accumulated amortisation and accumulated impairments	58,217	978,206	91,611	55,286	52,121	1,235,441
Additions	-	1,304	19,225	550	-	21,079
Amortisation	-	(31,536)	(1,652)	(1,759)	(2,140)	(37,087)
Impairments	(37,813)	(114,889)	(22,039)	(8,751)	-	(183,492)
Exchange differences	(821)	(14,676)	(1,112)	(671)	(58)	(17,338)
Balance at end of period net of accumulated amortisation and accumulated impairments	19,583	818,409	86,033	44,655	49,923	1,018,603
As at 31 December 2017						
Cost	57,328	1,069,897	120,525	58,413	68,617	1,374,780
Accumulated amortisation	-	(120,614)	(6,756)	(4,958)	(18,643)	(150,971)
Accumulated impairments	(37,745)	(130,874)	(27,736)	(8,800)	(51)	(205,206)
Net carrying amount	19,583	818,409	86,033	44,655	49,923	1,018,603

Intangible asset impairments recognised during the period totalled $183.5m, consisting of the following:

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

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 periodically at the CGU level and any impairment charges are recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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

	31 Dec 2017 $'000	30 June 2017 $'000
GPD	-	38,332
MCS	19,192	19,494
MPI	391	391
Total Goodwill	19,583	58,217

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 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.

Certain marketing and distribution rights are considered to have an indefinite life and hence are not amortised.

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
- the ability to measure reliably the expenditure during development

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

Significant accounting estimates and assumptions

Impairment of goodwill and intangible assets

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 for periods of up to 20 years;
- 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 Cash Generating Units (CGUs). Individual Therapeutic Group (TG) CGUs 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 TG or Segment CGU to which the Goodwill or Intangible Asset is so allocated represents the lowest level within the Group at which the asset is monitored for internal management purposes and separately identifiable cash flows are present, and is not larger than a reporting segment.

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

- GPD segment CGU with two Therapeutic Groups being 'Women's Health' (GPD WH) and 'Other' (GPD Other);
- SBD segment CGU with one Therapeutic Group being 'Dermatology';
- MCS CGU segment; and
- MPI segment CGU 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 conducted at firstly the CGU level and then the TG level. Goodwill represents an indefinite life asset which is allocated to segment CGUs (GPD, MCS and MPI) and, as such, is tested at this 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
- Discount the cash flows using WACC and compare to the CGU/TG allocated asset carrying value

'In use' (i.e. launched on market) intangible products are included in CGUs/TGs. 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
- 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.

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, after the asset impairments, is shown in the table below

A$m	MPI	GPD	SBD	MCS	Other	Total
Intangible Assets	65.8	727.8	61.7	6.5		**861.9**
Purchased assets not yet launched					45.5	**45.5**
R&D in process					61.8	**61.8**
HPPI					29.8	**29.8**
Goodwill	0.4			19.2		**19.6**
Total Intangible Assets including Goodwill	**66.2**	**727.8**	**61.7**	**25.7**	**137.0**	**1,018.6**

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 FY23. 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 cash flows have not been included in the CGU/TG forecasts
- Corporate overhead has been allocated to CGUs and TGs
- Other net assets have been allocated to CGUs and TGs
- Individual CGU discount rates have been used

Discount rates reflect Management's estimate of time value of money and the risks specific to the CGU and have been determined using the WACC. The pre and post-tax discount rates used are shown below. There has been no change from those used as at 30 June 2017, with the exception of updated for the change in US tax rates enacted in December 2017.

- MCS: Pre Tax - 13.6% / Post Tax – 10.2%
- SBD: Pre Tax - 13.6% / Post Tax – 10.2%
- GPD: Pre Tax – 12.8% / Post Tax – 9.6% [1]
- MPI: Pre Tax - 13.7% / Post Tax – 9.6% [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.

Forecast sales growth rates (simple average across the periods) are shown in the table below. These growth rates do not include growth applicable to Purchased assets not yet launched and R&D in process as these are tested separately.

	FY19 to FY23	Terminal Value Growth Rate
MCS CGU forecast net sales growth	10%	2%
GPD CGU forecast net sales growth	-7%	n/a
GPD WH TG forecast net sales growth	*-5%*	*-1%*
GPD Other TG forecast net sales growth	*-7%*[1]	*-1%*
SBD CGU forecast net sales growth	15%	-3%
MPI CGU forecast net sales growth	4%	n/a
MPI Dermatology TG forecast net sales growth	*15%*[2]	*-3%*
MPI Other TG forecast net sales growth	*4%*	*0%*

Notes: 1. Assumes additional competition on Dofetilide in FY19.
2 Impacted by Doryx returns issue in FY18.

Recoverable values and carrying values are shown in the table below. As a result of testing undertaken, the following impairments were recognised during the half year.

- GPD – Women's Health: $87.2m
- GPD – Other: $36.5m
- GPD Segment (Goodwill balance held at the segment CGU level): $37.8m

	Carrying Value[1, 2]	Recoverable Value	Difference
MCS CGU	124.0	303.4	179.4
GPD CGU	929.8	929.8	0.0
GPD WH TG	*175.0*	*175.0*	*0.0*
GPD Other TG	*754.8*	*754.8*	*0.0*
SBD CGU	75.9	110.5	34.6
MPI CGU	105.3	139.0	33.7
MPI Dermatology TG	*71.4*	*89.5*	*18.2*
MPI Other TG	*33.5*	*49.5*	*16.0*

Notes: 1. The sum of the carrying value for individual TGs may be 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.

Sensitivity to changes in assumptions

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

A$m	+/-1% Change in Net Sales Growth	+/-1% Change in Terminal Growth Rate	+/-1% Change in WACC[1]
GPD CGU	*+39.0/-37.9*	+47.0/-38.9	-63.6/+76.0
GPD WH TG	*+5.6/-5.5*	*+8.3/-6.9*	*-11.8/+14.0*
GPD Other TG	*+33.4/-32.4*	*+38.7/-32.0*	*-51.8/+62.0*
SBD CGU	+9.7/-9.4	+6.5/-5.6	-9.1/+10.7
MPI CGU	+10.1/-9.9	+9.2/-7.6	*-11.7/+14.1*
MPI Dermatology TG	*+6.4/-6.3*	*+5.1/-4.3*	*-7.0/+8.2*
MPI Other TG	*+3.7/-3.6*	*+4.1/-3.3*	*-4.7/+5.9*

Notes: 1. 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.

11. TRADE AND OTHER PAYABLES

	31 December 2017 $'000	30 June 2017 $'000
Trade payables	58,336	66,593
Accrued rebates, returns and loyalty programs	81,649	71,348
Other payables	23,665	16,519
	163,650	154,460

12. INTEREST-BEARING LOANS AND BORROWINGS

	31 December 2017 $'000	30 June 2017 $'000
Current		
Syndicated loan (working capital facility)	-	13,011
Lease liabilities	7	113
	7	13,124

	31 December 2017 $'000	30 June 2017 $'000
Non-current		
Syndicated loan	363,698	331,722
Borrowing costs (net of amortisation)	(4,611)	(4,683)
Lease liabilities	-	83
	359,087	327,122

Syndicated loan

The loan facility limit is US$400m with working capital facilities of A$10m and US$20m also available. The loan facility is supported by nine individual banks. The working capital facilities were extended for two years effective 28 July 2017. The loan facility can be drawn down in either USD or AUD with USD expected to be the major currency drawn down. The amounts drawn at 31 December 2017 were US$280m and A$5m (2016: US$230m and A$nil).

The facility is unsecured and incurs interest based on either LIBOR (for USD) with no floor, or BBSY (for AUD) plus a margin based on a net debt leverage ratio. The loan is subject to certain covenants and has an unused line fee payable based on the undrawn amount.

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

At 31 December 2017, the variable interest rate was 3.53% (2016: 2.98%). During the period, the Group entered into additional interest rate swap contracts to hedge the interest rate risk exposure with 54% of the outstanding US dollar loan amount hedged at 31 December 2017 (30 June 2017: 49%). The interest rate risk is managed using interest rate swaps in which the Group agrees to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

13. OTHER FINANCIAL LIABILITIES

	31 December 2017 $'000	30 June 2017 $'000
Current		
Earn-out liabilities – various products/distribution rights	1,469	3,980
Deferred consideration – various products/distribution rights	4,645	17,728
Completion of clinical studies obligation relating to acquired asset	2,013	2,342
	8,127	24,050

	31 December 2017 $'000	30 June 2017 $'000
Non-current		
Earn-out liabilities – various products/distribution rights	1.755	2,512
Deferred consideration – various products/distribution rights	12,543	12,634
Completion of clinical studies obligation relating to acquired asset	831	1,759
	15,129	16,905

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.

14. PROVISIONS

	31 December 2017 $'000	30 June 2017 $'000
Current		
Employee entitlements	8,908	8,261
Restructuring	5,438	-
	14,346	8,261

	31 December 2017 $'000	30 June 2017 $'000
Non-current		
Employee entitlements	1,470	1,312
Restoration	350	350
	1,820	1,662

15. CONTRIBUTED EQUITY

(a) Issued capital

	31 December 2017 $'000	30 June 2017 $'000
Ordinary shares, fully paid	1,129,725	1,130,404

(b) Movements in share capital

	31 December 2017	
	Number	$'000
Balance at beginning of period	1,510,929,673	1,130,404
Exercise of employee options	1,790,000	838
Tax effect of employee share options	-	(1,517)
Shares issued to employees under the LTI non-recourse loan funded arrangement (subject to risk of forfeiture) (net of forfeitures)	28,192,161	-
LTI employee shares cancelled	(16,099,012)	-
Balance at end of period	**1,524,812,822**	**1,129,725**

16. DIVIDENDS

The Board has decided to preserve the Company's capital and no interim dividend has been declared.

17. COMMITMENTS AND CONTINGENCIES

At Mayne Pharma's AGM in November 2017, it was announced the company would make a number of changes to its business to restructure the balance sheet and improve the cost base. An additional $2.6m of restructuring expenses is expected to be incurred in the second half of FY18. There were no other material changes in commitments.

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 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 and FY18. 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 and one in Texas involving allegations relating to Amiodarone. The issues involved include allegations of failure to adequately warn about risks associated with Amiodarone, failure to provide the FDA-required medication guide, off-label promotion, and conspiring with the other defendants to downplay the risks of the drug. 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.

18. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2017.

	$'000
Financial assets	
Current	
Warrants	4,667
Derivatives designated as hedges	3,535
	8,202
Financial liabilities	
Current	
Earn-out liabilities	1,469
	1,469
Non-current	
Earn-out liabilities	1,755
Syndicated loan	359,087
	360,842

Trade and other receivables, trade and other payables, other financial assets and other liabilities are considered short term and their fair values approximates the carrying values.

Fair Value

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	
	31 Dec 2017 $'000	30 June 2017 $'000	31 Dec 2017 $'000	30 June 2017 $'000
Assets				
Warrants (options) - HPPI	4,667	6,208	4,667	6,208
Market to market valuation – interest rate swaps	3,535	1,415	3,535	1,415
Liabilities				
Earn-out liability – various products	3,224	5,739	3,224	5,739
Interest-bearing syndicated loan	359,087	340,050	363,698	344,733

Warrants, as at reporting date, represent options to purchase an additional 23,504,236 shares (30 June 2017 23,504,236) in HPPI at an exercise price of 12.0 US cents per share.

Interest rate swaps represent the Mark to Market value of open contracts at reporting date.

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 the DCF method using the discount rates applying at the end of the reporting period. The own non-performance risk at reporting date was assessed as insignificant.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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.

Assets and liabilities measured at fair value

As at 31 December 2017, the Group held the following financial instruments carried at fair value in the Statement of Financial Position:

	Level 2		Level 3	
	31 December 2017 $'000	30 June 2017 $'000	31 December 2017 $'000	30 June 2017 $'000
Financial Assets				
Warrants (options) - HPPI	-	-	4,667	6,208
Market to market valuation – interest rate swaps	3,535	1,415	-	-
Financial Liabilities				
Earn-out liability – various products	-	-	3,224	5,739

Reconciliation of fair value measurements of Level 3 financial instruments

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

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

	2017 Warrants $'000	2017 Earn-outs $'000
Opening balance	6,208	5,739
Fair value (decrement) / increment	(1,541)	644
Currency fluctuations	-	(83)
Payments	-	(3,076)
Closing Balance	4,667	3,224

During the six-month period ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements. The fair value increments and decrements were recorded in determining profit before tax.

19. EVENTS SUBSEQUENT TO REPORTING DATE

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.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Mayne Pharma Group Limited, I state that:

In the opinion of the directors:

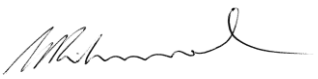
(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position as at 31 December 2017 and the performance for the half-year ended on that date of the consolidated entity; and

  (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* 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.

On behalf of the Board



Scott Richards
Director

Melbourne, 23 February 2018

AUDITOR'S INDEPENDENT REVIEW REPORT

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year 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 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ashley Butler
Partner
Melbourne
23 February 2018