Friday, 22 February 2019

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 2018.

This information should be read in conjunction with Mayne Pharma Group Limited's 2018 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 2018 $'000	Dec 2017 $'000
Revenue from ordinary activities	up	13%	**274,371**	243,256
Profit / (loss) from ordinary activities before income tax expense			**11,880**	(210,843)
Profit / (loss) from ordinary activities after income tax expense			**1,001**	(173,136)
Attributable to: Equity holders of the parent Non-controlling interests			 2,580 (1,579)	 (174,206) 1,070
			1,001	(173,136)
Other comprehensive income after income tax expense			**49,844**	(15,381)
Total comprehensive income after income tax expense			**50,845**	(188,517)
Attributable to: Equity holders of the parent Non-controlling interests			 51,967 (1,122)	 (189,501) 984
			50,845	(188,517)

	Dec 2018 $'000	Dec 2017 $'000
Net tangible assets per ordinary share	**$0.080**	$0.078

	2018 Cents	2017 Cents
Basic earnings per share	**0.2**	(11.9)
Diluted earnings per share	**0.2**	(11.9)
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 2018.

Refer to the Directors' Report and the accompanying ASX announcement dated 22 February 2019 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 2018

(Prior comparable period: Half-year ended 31 December 2017)

CONTENTS

CORPORATE INFORMATION

DIRECTORS:	Mr Roger Corbett, AO (Chairman) Mr Scott Richards (Managing Director and CEO) Hon. Ron Best Mr Patrick Blake Mr Frank Condella Ms Nancy Dolan 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 2018.

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
Mr Patrick Blake
Mr Frank Condella
Ms Nancy Dolan
Mr William (Phil) Hodges (resigned 29 November 2018)
Mr Bruce Mathieson
Prof Bruce Robinson, AM
Mr Ian Scholes

REVIEW OF RESULTS

The Consolidated Entity's net profit attributable to members of the Company for the half-year ended 31 December 2018 was $2.6m (half-year ended 31 December 2017: loss of $174.2m).

Set out below is a summary of the financial performance attributable to Mayne Pharma shareholders for the six months ended 31 December 2018. 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 underlying results is as follows:

SALES AND PROFIT	REPORTED ATTRIBUTABLE TO MEMBERS DEC 2018 (1) $M	EARN-OUT REASSESSMENTS (2) $M	DOJ (3) $M	HPPI – MAYNE PHARMA'S SHARE (4) $M	HPPI WARRANTS FAIR VALUE ADJUSTMENT (5) $M	RESTATEMENT OF DTA US STATE TAX EFFECTIVE RATES (6) $M	UNDERLYING DEC 2018 $M
Revenue	274.4						274.4
Gross profit	160.4						160.4
Gross profit %	*58.5%*						*58.5%*
EBITDA	**65.4**	4.2	1.5	1.7	8.4	-	**81.2**
Depreciation / Amortisation	(44.7)	-	-	0.2	-	-	(44.5)
PBIT	20.7	4.2	1.5	1.9	8.4	-	**36.7**
Net Interest	(7.2)	-	-	-	-	-	(7.2)
PBT	13.5	4.2	1.5	1.9	8.4	-	**29.5**
Income tax	(10.9)	-	(0.3)	-	-	2.8	**(8.4)**
PAT	2.6	4.2	1.2	1.9	8.4	2.8	**21.1**

(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) Earn-out and deferred consideration liabilities reassessment.
(3) Drug pricing investigations and related litigation costs.
(4) HPPI – Mayne Pharma's share of HPPI's EBITDA loss ($1.7m).
(5) Restatement of HPPI warrants to fair value.
(6) The Group's effective blended US state tax rate has reduced causing a reduction of the DTA.

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 22 February 2019.

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 (HPPI revenue 2018: nil; 2017: nil) and expenses incurred by Hedgepath Pharmaceuticals Inc (HPPI) where applicable.

The Group recorded revenue of $274.4m, up 13% on pcp and gross profit was $160.4m up 67% on pcp.

Gross profit reported as a percentage of sales revenue was 58% versus 39% in the pcp. The stronger gross profit and margin improvement reflects greater contribution from Specialty Brands which has a higher margin profile, cost savings from bringing manufacturing in-house from third parties, favourable product sales mix in generics and normalised levels of stock obsolescence and DORYX® returns.

Foreign currency has been a tailwind over the period for revenue, gross profit and EBITDA with the average USD FX rate strengthening 5 cents to 0.7241 versus 0.7792 in the pcp. At the underlying EBITDA level, the FX impact was favourable versus the pcp by A$5.9m.

Included in Other Comprehensive income is a FX gain on translation of $58.5m. This represents the FX gain of translating the net assets of self-sustaining US operations into AUD at the balance sheet exchange rate of 0.7054 compared to the 30 June rate when the AUD / USD exchange rate was 0.7407.

The Consolidated Entity operates in four operating segments being Generic Products (GPD), Specialty Brands (SBD), Metrics Contract Services (MCS), 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 3% to $175.9m ($180.9m prior comparative period or "pcp") and gross profit increased by 58% to $100.3m ($63.6m pcp) for the period.

In US dollar terms, sales were down 10% to US$127.4m (US$141.0m pcp) and gross profit was US$73m up 47%. Key drivers of the improving gross profit was liothyronine which was launched in early 2018, the acquisition of generic EFUDEX® (fluorouracil) and normalised stock obsolescence. Dofetilide, was impacted significantly by the approval of a number of competitors with sales down 73% to US$9m driven by pricing pressure, market share loss and shelf stock adjustments. Excluding dofetilide, GPD sales and gross profit were up 10% and 112% respectively.

Specialty Brands Division (SBD)

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

Revenue increased by 213% to $43.3m ($13.8m pcp) and gross profit increased by 227% to $37.8m ($11.6m pcp) for the period.

In US dollar terms, SBD's revenue was up 190% to US$31.3m and gross profit was US$27.4m, up 204%. All key specialty products contributed to the growth with FABIOR® up 97%, SORILUX® up 73% and the DORYX family up 780%. The strong growth in DORYX reflects the elimination of the abnormal DORYX returns which impacted the pcp and better business mix. Adjusting for DORYX returns in the pcp, SBD sales were up 53%.

Metrics Contract Services (MCS)

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

Revenue increased by 14% to $33.9m ($29.7m pcp) and gross profit increased by 4% to $16.5m ($15.8m pcp) for the period.

In US dollar terms, MCS sales were up 6% to US$24.5m (pcp US$23.2m). MCS is benefiting from the investments made in Greenville over the last three years to transform manufacturing capacity and capability. The new solid oral dose manufacturing facility which was opened in April 2018 is enabling MCS to develop a new ongoing recurring revenue stream related to commercial manufacturing.

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 13% to $21.3m ($18.8m pcp) and gross profit increased by 17% to $5.8m ($5.0m pcp) for the period. The stronger sales performance was driven by growth in key specialty products - MONUROL® (fosfomycin trometamol) and UROREC® (silodosin) and growing sales of SUBA®-itraconazole and morphine sulfate globally.

Expenses

Net research and development expense after qualifying capitalisation (of $11.4m) was $11.7m, an increase in the expense of $7.1m (152%) on the pcp. Additional spend in the Speciality Brands area (R&D in this area is generally not capitalised) this period has resulted in the level of R&D capitalisation declining from 80% in the pcp to 49% this half. This category includes HPPI research and development expense of $1.6m ($1.2m pcp).

	Dec 2018 $M	Dec 2017 $M
Total R&D costs incurred	23.1	23.9
Development costs capitalised	11.4	19.2
R&D expensed	11.7	4.7

Marketing and distribution expense was $35.1m, an increase of $7.2m (26%) on the pcp. The major increase was due to the expansion of the dermatology sales team in January 2018 which doubled from 60 to 115 sales representatives as well as the investment in a new specialised field team to market TOLSURA™ (SUBA-itraconazole).

Administration and other expenses were $94.6m, an increase of $12.1m (15%) on the pcp. This includes amortisation of intangible assets which was $37.3m. Also included in administration and other expenses in the current period is the fair value restatement of HPPI warrants ($8.4m) and the restatement of earn-out liabilities ($4.2m).

Finance expenses were $7.7m, a decrease of $0.7m (9%) on the pcp. Borrowing costs includes the impact of currency (significant USD denoted interest) and the increase in the US Libor rate. This was offset by the cancellation of several interest rate swap contracts which realised a gain of $1.8m and a gain on the modification of the syndicated loan facility of $0.5m. The Company renewed the financing facilities during December achieving a lower margin.

Tax

The tax expense of $10.9m comprised:

- Current period income tax for the six months to 31 December 2018 of $0.7m;
- Prior year under provision of $0.8m; and
- Expense of $9.4m relating to the movement in net tax deferred tax assets and liabilities.

REVIEW OF BALANCE SHEET

Cash

Cash increased by $8.9m compared to 30 June 2018. Refer below for further commentary.

Inventory, receivables and trade payables

Receivables increased by $48.0m, inventory increased by $18.5m and trade and other payables increased by $25.2m compared to 30 June 2018. The increase in working capital was due to the extension of terms to a major customer and the working capital build to support the generic EFUDEX acquisition. These increases include the impact of currency translation.

Intangible assets and goodwill

Intangible assets increased by $124.3m compared to the balance at 30 June 2018. The movement comprised of:

- An increase of $11.3m for capitalised development costs;
- An increase of $100.6m for intangible asset acquisitions including LEXETTE™ (halobetasol) foam and generic EFUDEX;
- A decrease of $37.3m for amortisation; and
- An increase of $49.6m due to foreign currency translation with the AUD / USD exchange rate decreasing from 0.7407 at 30 June 2018 to 0.7054 at 31 December 2018.

Property, plant & equipment

Property, plant and equipment increased by $7.9m compared to the balance at 30 June 2018. The movement comprised of:

- An increase of $7.3m for additions which includes the capital works programs and general site maintenance capital expenditure;
- A decrease of $7.6m for depreciation; and
- An increase of $8.9m due to foreign currency translation.

Interest bearing liabilities.

Interest bearing liabilities increased to $394.6m from $374.1m at 30 June 2018. The net proceeds from borrowings during the period was $8.9m with most of the remaining increase in borrowings due to foreign currency restatement with the AUD / USD exchange rate decreasing from 0.7407 at 30 June 2018 to 0.7054 at 31 December 2018.

Other financial liabilities

Other financial liabilities increased by $61.9m from 30 June 2018 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;
- An increase of $55.2m due to asset acquisitions;
- An increase of $4.2m due to re-assessments of various earn-out liabilities;
- A decrease of $0.6m due to payments made for earn-outs and deferred settlements; and
- An increase relating to foreign currency translation of $2.2m.

REVIEW OF CASH FLOWS

Cash at 31 December 2018 was $96.2m, representing an increase of $8.9m from 30 June 2018.

A summary of operating cash flows is as follows:

	Dec 2018 $M	Dec 2017 $M
Operating cash flow before working capital movements	88.6	39.2
Working capital (investment) / release	(35.1)	8.8
Net Operating cash flows	53.5	48.0

Notable cash flows during the period included:

- Increase in working capital was due to the extension of terms to a major customer and the working capital build to support the generic EFUDEX acquisition.

	Dec 2018 $M	Dec 2017 $M
Investing cash flows	(63.3)	(78.5)

Notable cash flows during the period included:

- $6.6m payments for capital expenditure across the Group mainly relating to the facilities upgrades;
- $44.3m payments for the acquisition of product rights including LEXETTE and generic EFUDEX;
- $11.3m in capitalised development expenditure; and
- Earn-out and deferred settlement payments totalling $0.6m;

	Dec 2018 $M	Dec 2017 $M
Financing cash flows	16.0	24.0

Notable cash flows during the period included:

- Net proceeds from borrowings of $8.9m (net of fees); and
- Net proceeds from share issues of $7.0m relating to consideration for the generic EFUDEX acquisition and employee option exercises

Dividend

The Directors have not declared an interim dividend in relation to the period ended 31 December 2018.

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 22nd day of February 2019.

Scott Richards
Director

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
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Melbourne VIC 3000 Australia
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Auditor's Independence Declaration to the Directors of Mayne Pharma Group Limited

As lead auditor for the review of the half-year financial report of Mayne Pharma Group Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

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

David Petersen
Partner
Melbourne
22 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Sale of goods		234,279	208,590
Services revenue		38,656	34,150
License fee revenue		490	-
Royalties revenue		946	516
Revenue		**274,371**	**243,256**
Cost of sales	4	(113,957)	(147,370)
Gross profit		**160,414**	**95,886**
Other income	3	576	149
Research and development expenses		(11,727)	(4,660)
Marketing and distribution expenses		(35,116)	(27,875)
Administrative and other expenses	4	(94,578)	(82,429)
Asset impairments	10	-	(183,492)
Finance expenses	4	(7,689)	(8,422)
Profit / (loss) before income tax		11,880	(210,843)
Income tax (expense) / credit	5	(10,879)	37,707
Net profit / (loss) for the period		1,001	(173,136)
Attributable to:			
Equity holders of the Parent		2,580	(174,206)
Non-controlling interests		(1,579)	1,070
		1,001	(173,136)
Other comprehensive income for the period, net of tax			
Items which may be reclassified to profit/loss			
Unrealised (loss) / gain on cash flow hedges		(3,500)	2,120
Income tax effect		-	-
Exchange differences on translation		58,529	(17,415)
Income tax effect		(5,643)	-
Items that will not be reclassified to profit or loss in future periods			
Exchange differences on translation		457	(86)
Income tax effect		-	-
Total comprehensive income for the period		50,845	(188,517)
Attributable to:			
Equity holders of the Parent		51,967	(189,501)
Non-controlling interests		(1,122)	984
		50,845	(188,517)
Basic earnings per share		0.2 cents	(11.9) cents
Diluted earnings per share		0.2 cents	(11.9) 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 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
Current assets			
Cash and cash equivalents	6	96,173	87,312
Trade and other receivables	7	300,762	252,715
Inventories	8	100,644	82,156
Income tax receivable		4,596	22,206
Other financial assets		3,989	15,428
Other current assets		25,622	20,950
Total current assets		531,786	480,767
Non-current assets			
Property, plant and equipment	9	237,979	230,051
Deferred tax assets	5	63,923	65,164
Intangible assets and goodwill	10	1,178,805	1,054,526
Total non-current assets		1,480,707	1,349,741
Total assets		2,012,493	1,830,508
Current liabilities			
Trade and other payables	11	177,782	152,561
Interest-bearing loans and borrowings	12	56,849	58
Other financial liabilities	13	19,217	12,477
Provisions	14	13,401	14,801
Total current liabilities		267,249	179,897
Non-current liabilities			
Interest-bearing loans and borrowings	12	337,775	374,132
Other financial liabilities	13	60,525	5,350
Deferred tax liabilities	5	47,407	34,030
Provisions	14	2,131	1,941
Total non-current liabilities		447,838	415,453
Total liabilities		715,087	595,351
Net assets		1,297,406	1,235,157
Equity			
Contributed equity	15	1,139,615	1,131,761
Reserves		124,115	71,178
Retained Earnings		26,105	23,525
Equity attributable to equity holders of the Parent		1,289,835	1,226,464
Non-controlling interests		7,571	8,693
Total equity		1,297,406	1,235,157

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 2018

	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 2018	1,131,761	20,813	47,339	6,747	(3,721)	23,525	1,226,464	8,693	1,235,157
Profit for the period	-	-	-	-	-	2,580	2,580	(1,579)	1,001
Other comprehensive income									
Foreign exchange translation (net of tax)	-	-	52,867	-	-	-	52,867	457	53,323
Cash flow hedge	-	-	-	(3,500)	-	-	(3,500)	-	(3,500)
Total comprehensive income	-	-	52,867	(3,500)	-	2,580	51,967	(1,122)	50,845
Transactions with owners in capacity as owners									
Shares issued (net of issue costs)	7,050	-	-	-	-	-	7,050	-	7,050
Share options exercised	1,173	(1,173)	-	-	-	-	-	-	-
Tax effect of employee share options	(369)	-	-	-	-	-	(369)	-	(369)
Share-based payments	-	4,146	-	-	-	-	4,146	-	4,146
HPPI equity changes	-	-	-	-	578	-	578	-	578
Employee LTI shares cancelled reclassified to retained earnings	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	1,139,615	23,786	100,226	3,247	(3,143)	26,105	1,289,835	7,571	1,297406
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

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 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		369,182	309,632
Payments to suppliers and employees		(314,464)	(243,115)
Interest received		445	36
Interest paid		(6,594)	(6,893)
Tax paid		-	(9,600)
Tax received		16,926	2,764
		65,495	52,824
Payments for research and non-capitalised development expenditure		(10,453)	(3,950)
Restructuring, transaction and DOJ costs		(1,538)	(843)
Net cash flows from / (used in) operating activities	6	53,504	48,031
Cash flows from investing activities			
Payments for plant and equipment		(6,645)	(39,541)
Payments for intangible assets		(44,281)	(1,853)
Payments for capitalised development costs		(11,352)	(19,225)
Payments for warrants		(475)	-
Earn-out and deferred settlement payments		(577)	(17,849)
Net cash flows used in investing activities		(63,330)	(78,468)
Cash flows from financing activities			
Proceeds from issue of shares		7,085	441
Equity raising costs		(35)	(2)
Repayment of borrowings		(34,562)	(187)
Proceeds from Borrowings (receivables finance facility – net of fees)		34,665	-
Proceeds from borrowings (syndicated facility - net of fees)		8,807	23,738
Net cash flows from financing activities		15,960	23,990
Net increase/(decrease) in cash and cash equivalents		6,134	(6,447)
Cash and cash equivalents at beginning of period		87,312	63,027
Effect of foreign exchange changes on cash held in foreign currencies		2,727	(623)
Cash and cash equivalents at end of period	6	96,173	55,957

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 2018

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The financial report for the half-year ended 31 December 2018 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.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2018 and considered together with any public announcements made by Mayne Pharma Group Limited during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations of the *ASX Listing Rules*.

Where required, items in the June 2018 and December 2017 comparatives have been reclassified to reflect the current presentation and enable better comparison between periods.

Changes in accounting policy and adoption of new accounting standards

From 1 July 2018 the Group has adopted the relevant standards and interpretations mandatory for annual reports beginning on or after 1 July 2018. Adoption of the standards and interpretations did not have any effect on the financial position or performance of the Group.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report except for the following –

The revenue recognition policy which was updated as AASB 15 became effective from 1 July 2018. The new standard amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Group's revenue from customer contracts includes sales of goods revenue, service revenue, royalty revenue and licence fee revenue. Revenue from sale of goods is recognised when control of the goods or services are transferred to the customer and our performance obligations are satisfied at the time of shipment to or receipt of the products by the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Some contracts for the sale of goods are subject to various deductions which are primarily composed of chargebacks, customer rebates, returns and loyalty programs. Prior to the adoption of AASB 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of these deductions. Under AASB 15, these deductions give rise to variable consideration. The variable consideration is estimated at contract inception under the 'expected value method'. Variable consideration is only recognized when it is highly probable that a significant reversal will not occur. Service revenue is recognised over time as our performance obligations are satisfied. This accounting policy change did not have any material effect on the financial position or performance of the Group.

Mayne Pharma implemented AASB 9 Financial Instruments effective 1 July 2018. The new standard changes the classification and measurement of financial instruments. The new standard requires impairments to be based on a forward-looking model, changes the approach to hedging financial exposures and related documentation, changes the recognition of certain fair values changes and amends disclosure requirements. The impairment of financial assets including trade receivables is now assessed using an expected credit loss model; previously, the incurred loss model was used. This accounting policy change has been applied retrospectively and did not have any material 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 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 $9.6m of undiscounted operating lease commitments as at 30 June 2018. 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.

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.

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.

Metrics Contract Services

The Metrics Contract Services segment's revenue and gross profit are derived from providing analytical, contract pharmaceutical development and manufacturing services to third-party customers principally 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 $'000	Specialty Brands $'000	Metrics Contract Services $'000	MPI $'000	Total Consolidated $'000
Half Year ended 31 December 2018					
Sale of goods	175,897	43,292	-	15,090	234,279
Services income	-	-	33,896	4,760	38,656
Royalty income	-	-	-	946	946
Licence fee income	-	-	-	490	490
Revenue	175,897	43,292	33,896	21,286	274,371
Cost of sales	(75,590)	(5,476)	(17,440)	(15,451)	(113,957)
Gross profit	100,307	37,816	16,456	5,835	160,414
Other income					576
Asset impairments					-
Amortisation of intangible assets					(37,282)
Other expenses (refer Statement of Profit or Loss and Other Comprehensive Income)					(111,828)
Profit before income tax					11,880
Income tax expense					(10,879)
Net profit for the period					1,001

	Generic Products $'000	Specialty Brands $'000	Metrics Contract Services $'000	MPI $'000	Total Consolidated $'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	13,849	29,728	18,760	243,256
Cost of sales	(117,339)	(2,288)	(13,964)	(13,779)	(147,370)
Gross profit	63,580	11,561	15,764	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 / (loss) before income tax					(210,843)
Income tax benefit / (expense)					37,707
Net profit / (loss) for the period					(173,136)

Geographical segment information

Revenue from external customers	31 December 2018 $'000	31 December 2017 $'000
Australia	13,891	14,092
United States	253,085	224,494
Korea	1,714	1,653
Other	5,681	3,017
Total external revenue	**274,371**	243,256

Product information

Revenue by product group / service	31 December 2018 $'000	31 December 2017 $'000
Third party contract services and manufacturing	38,656	34,150
Generic and branded products	234,279	208,590
Other revenue	1,436	516
Total external revenue	**274,371**	243,256

3. OTHER INCOME

	31 December 2018 $'000	31 December 2017 $'000
Interest income	445	36
Other income	131	113
	576	149

4. EXPENSES

	31 December 2018 $'000	31 December 2017 $'000
Finance expenses		
Interest expense	7,541	5,858
Unused line fees	895	1,035
Amortisation of borrowing costs	735	634
Gain on modification of syndicated loan facility	(516)	-
Gain on cancellation of interest rate swaps contracts reclassified	(1,840)	-
Change in fair value attributable to the unwinding of the discounting of earn-out and deferred consideration liabilities	874	895
Total finance expense	**7,689**	8,422
Depreciation [1]	**7,598**	3,919
Cost of sales include the following:		
Inventory write-offs	8,616	8,393
Provision for inventory obsolescence	(1,774)	9,380
Inventory net realisable value adjustments	-	5,124
Onerous supplier contracts	-	3,097
Employee benefits expense [2]		
Wages and salaries	56,934	49,858
Superannuation expense	2,185	2,205
Share-based payments (includes the expense for cancelled shares) [3]	4,146	10,311
Other employee benefits expense	4,075	4,076
Total employee benefits expense	**67,340**	66,450
Administration and other expenses include the following:		
Foreign exchange loss	663	1,001
Fair value restatement of HPPI warrants	8,446	1,541
Drug pricing investigations and related litigation costs	1,538	264
Share-based payments excluding cancelled shares	4,146	2,899
Share based payments expense for cancelled shares [3]	-	7,412
Restructuring costs	-	3,450
Amortisation of intangible assets	37,282	37,087
Movement in undiscounted fair value of earn-out and deferred consideration liabilities	4,197	(631)
All other administration and other expenses	38,306	29,406
Total Administration and other expenses	**94,578**	82,429

Notes:
1. Depreciation expense is included in cost of sales ($6,136,000) and various expense categories ($1,462,000).
2. Employee benefit expense is included in various expense categories and cost of sales.
3. During the prior period, employees agreed to cancel 16.1 million employee LTI shares which had an exercise price more than $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 2018 $'000	31 December 2017 $'000
Current income tax		
Current income tax	(694)	(4,156)
Adjustment in respect of current income tax of previous years	(756)	836
Deferred income tax		
Relating to movement in net tax deferred tax assets and liabilities	(9,429)	41,027
Income tax credit / (expense) in the consolidated statement of profit or loss and other comprehensive income	(10,879)	37,707

(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 2018 $'000	31 December 2017 $'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	11,880	(210,843)
Prima facie tax credit / (expense) at 30%	(3,556)	63,253
Effect of R&D concessions	359	566
Over provision in respect of prior years	(756)	836
Non-assessable items	2,636	5,520
Adjustments to DTAs & DTLs	(1,220)	-
Non-deductible expenses for tax purposes		
Amortisation	(812)	(812)
Share-based payments	(535)	(3,547)
Asset impairments - goodwill	-	(11,343)
Earn-out reassessments and discount unwind	(1,522)	-
Other non-deductible expenses	(4,010)	(2,911)
Effect of different tax rate in US	3,004	(4,407)
US State taxes	(775)	6,473
Tax losses not recognised	(914)	(4,631)
Restatement of DTA re changes to US state tax rates	(2,777)	-
Restatement of DTA & DTL re US tax rate changes	-	(11,290)
Income tax credit / (expense)	(10,879)	37,707

US federal corporate tax changes.

Income tax expense (above) for the current period relating to Mayne Pharma's US operations has been determined using 21%. The US legislation Tax Cuts and Jobs Act was enacted in the prior comparison period. In the prior comparison period Mayne Pharma's operations in the US were subject to a blended federal income tax rate of 28.1% for the whole of FY18.

As a consequence of the US federal corporate tax rate changes in the prior comparison period, US denoted deferred tax assets and US denoted deferred tax liabilities that were expected to reverse in the second half of FY18 were restated using the 28.1% rate and US denoted deferred tax assets and US denoted deferred tax liabilities that were expected to reverse in FY19 or beyond were restated using the 21% rate. As Mayne Pharma had 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 in the comparative as disclosed above.

C. Recognised deferred tax assets and liabilities

	31 December 2018 $'000	30 June 2018 $'000
Deferred tax assets		
Intangible assets	29,441	29,537
Provisions	7,778	5,981
Payables	22,269	15,819
Inventory	6,371	7,633
Carry forward tax losses and R&D credits	12,340	11,659
Employee share options	69	728
US state taxes	4,660	7,529
Equity raising costs	137	275
Other	1,497	1,240
	84,562	80,401
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Assets	84,562	80,401
Set off of Deferred Tax Liabilities	(20,639)	(15,237)
Net Deferred Tax Assets[1]	**63,923**	65,164
Deferred tax liabilities		
Property, plant and equipment	15,314	13,742
Intangible assets	37,276	32,637
US State taxes	3,658	2,870
Other receivables and prepayments	3,382	-
Unrealised foreign exchange gains	8,416	-
Other	-	18
	68,046	49,267
Reconciliation to the Statement of Financial Position		
Total Deferred Tax Liabilities	68,046	49,267
Set off against Deferred Tax Assets	(20,639)	(15,237)
Net Deferred Tax Liabilities[2]	**47,407**	34,030

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 consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	31 December 2018 $'000	30 June 2018 $'000
Cash at bank and in hand	96,173	87,312

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

	31 December 2018 $'000	31 December 2017 $'000
Net profit / (loss) after income tax	1,001	(173,136)
Adjustments for:		
Depreciation and amortisation	45,615	41,640
Share-based payments	4,146	10,311
Movement in earn-out liabilities	5,071	264
Fair value movement HPPI warrants	8,446	1,541
Asset impairments	-	183,492
Net unrealised foreign exchange differences	(1,235)	(304)
Gain on modification of syndicated loan facility	(516)	-
Non-cash provisions – inventory and restructuring	(1,775)	19,952
Changes in tax balances:		
Decrease / (Increase) in deferred tax assets	1,004	(10,002)
Decrease in current and deferred tax liabilities	26,881	(34,541)
Operating cash flows before working capital movements	88,638	39,217
Changes in working capital:		
(Increase) in receivables	(34,837)	(8,733)
Decrease / (Increase) in inventories	(12,564)	1,566
(Increase) in other assets	(3,583)	(6,503)
Increase in creditors	17,571	21,606
Increase / (Decrease) in provisions	(1,721)	878
Total working capital movements	(35,134)	8,814
Net cash flow from operating activities	53,504	48,031

7. TRADE AND OTHER RECEIVABLES

	31 December 2018 $'000	30 June 2018 $'000
Trade receivables (net of charge-backs)	297,521	252,013
Trade receivables – profit share	893	292
Provision for impairment	(112)	(635)
Other receivables	2,460	1,045
	300,762	252,715

Receivables sold on a non-recourse basis total US$25.2m at balance date. The receivables have not been de-recognised. Also refer note 12.

8. INVENTORIES

	31 December 2018 $'000	30 June 2018 $'000
Raw materials and stores at cost	36,550	33,625
Work in progress at cost	11,535	7,546
Finished goods at lower of cost and net realisable value	52,559	40,985
	100,644	82,156

9. PROPERTY, PLANT AND EQUIPMENT

	LAND $'000	BUILDINGS $'000	PLANT AND EQUIPMENT $'000	CAPITAL UNDER CONSTRUCTION $'000	TOTAL $'000
Six months ended 31 December 2018					
Balance at beginning of period net of accumulated depreciation	9,306	104,978	100,060	15,707	230,051
Additions	-	1,434	5,599	227	7,260
Transfers from capital under construction	-	-	5,895	(5,895)	-
Depreciation charge for year	-	(1,704)	(5,894)	-	(7,598)
Disposals	-	-	(613)	-	(613)
Foreign currency restatement	238	4,387	4,012	242	8,879
Balance at end of year net of accumulated depreciation	9,544	109,095	109,059	10,281	237,979
As at 31 December 2018					
At cost	9,544	118,417	150,090	10,281	288,332
Accumulated depreciation	-	(9,322)	(41,031)	-	(50,353)
Net carrying amount	9,544	109,095	109,059	10,281	237,979

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 2018						
Balance at beginning of the period net of accumulated amortisation and accumulated impairments	20,616	838,286	102,225	45,429	47,970	1,054,526
Additions	-	100,078	11,352	480	-	111,910
Amortisation	-	(32,168)	(2,049)	(915)	(2,150)	(37,282)
Impairments	-	-	-	-	-	-
Exchange differences	1,013	42,671	4,361	1,427	179	49,651
Balance at end of period net of accumulated amortisation and accumulated impairments	21,629	948,867	115,889	46,421	45,999	1,178,805
As at 31 December 2018						
Cost	63,398	1,289,061	156,986	62,105	69,134	1,640,684
Accumulated amortisation	-	(195,363)	(11,252)	(5,946)	(23,080)	(235,641)
Accumulated impairments	(41,769)	(144,831)	(29,845)	(9,738)	(55)	(226,238)
Net carrying amount	21,629	948,867	115,889	46,421	45,999	1,178,805

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 2018 $'000	30 June 2018 $'000
MCS	21,238	20,225
MPI	391	391
Total Goodwill	21,629	20,616

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, development expenditure and other intellectual property are considered to have an indefinite life and hence are not amortised. These assets, considered on an individual 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 estimates and assumptions

Impairment of goodwill and intangible assets

No impairments to either goodwill or intangible assets occurred during the period. Given historical impairments in GPD, and the change in circumstances with HedgePath Pharmaceuticals Inc (HPPI), additional information has been provided below.

An asset is considered impaired when its balance sheet carrying amount exceeds its estimated recoverable amount, which is defined as the higher of its fair value less cost of disposal and its value in use. The Group applies the value in use method which utilises net present value techniques using 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;
- applicable tax rates;
- behaviour of competitors (launch of competing products, marketing initiatives, etc);
- selected discount and terminal growth rates; and
- in the case of unlaunched products:
    - the outcome of R&D activities (compound efficacy, results of clinical trials, etc);
    - amount and timing of projected costs to develop in process research and development into commercially viable products; and
    - probability of obtaining regulatory approvals.

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

Goodwill and Intangible Impairment Testing Methodology

For impairment testing, Intangible Assets are allocated to individual CGUs (which are the Therapeutic Groups or 'TG') which are then combined into the overall reporting segment CGUs of GPD, SBD, MCS and MPI. Goodwill testing is performed at the segment level.

Each TG/Segment CGU 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).

Impairment testing is conducted at firstly the Segment 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 TG/Segment CGU including an allocation of corporate assets and costs;
- Estimate cash flows generated over the life of the TG/Segment CGU;
- Calculate the Weighted Average Cost of Capital (WACC) of the TG/Segment CGU; and
- Discount the cash flows using WACC and compare to the TG/Segment CGU allocated asset carrying value.

Purchased assets not yet launched and R&D in process represent products in development but not yet launched. These assets, and related cashflows, are included in the relevant CGU for testing purposes and are also tested individually and on an annual basis.

The HPPI/BCCNS intangible asset represents the estimated value of the use of SUBA-itraconazole in patients with Basal Cell Carcinoma Nevus Syndrome (BCCNS, commonly known as Gorlin Syndrome) development program at the time Mayne Pharma took a controlling interest in HedgePath Pharmaceuticals, Inc (HPPI) in May 2015. During the period, a revision of the Supply and Licence Agreement with HPPI occurred and the US rights for SUBA-itraconazole in patients with BCCNS have returned to the company. HPPI/BCCNS represents a similar asset to R&D in process. This asset is tested individually and on an annual basis.

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

A$m	MPI	GPD	SBD	MCS	Other	Total
Intangible Assets	81.6	915.3	122.4	5.9	-	**1,125.2**
HPPI/BCCNS Development	-	-	-	-	32.0	**32.0**
Goodwill	0.4	-	-	21.2	-	**21.6**
Total Intangible Assets including Goodwill	**82.0**	**915.3**	**122.4**	**27.1**	**32.0**	**1,178.8**

Key Assumptions - GPD

Key assumptions in impairment testing methodology include:

- Cash flow forecasts are based on FY19 forecast results as well as specific cash flows which have been forecast out to FY23. A terminal growth rate is then applied;
- Corporate overhead has been allocated to the relevant TG/Segment CGU;
- Other net assets have been allocated to the relevant TG/Segment CGU; and
- 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 2018.

- GPD: Pre-Tax – 12.8% / Post Tax – 9.6% [1]

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

Forecast sales growth rates (simple average across the periods) are shown in the table below. These average growth rates are assumptions determined to satisfy applicable accounting standards but should not be used for guidance.

	FY19 to FY23	Terminal Value Growth Rate
GPD CGU forecast net sales growth	-2%	-1%
GPD WH TG forecast net sales growth	*+2%*	*-1%*
GPD Other TG forecast net sales growth	*-3%*	*-1%*

Recoverable values and carrying values are shown in the table below.

	Carrying Value[1,2]	Recoverable Value	Difference
GPD CGU	1,171.5	1,319.9	148.4
GPD WH TG	*220.0*	*286.7*	*66.7*
GPD Other TG	*951.5*	*1,033.1*	*81.7*

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 show 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	+37.4/-36.6	+88.2/-73.0	-102.8/+123.6
GPD WH TG	*+5.0/-4.9*	*+19.1/-15.8*	*-22.6/+27.1*
GPD Other TG	*+32.4/-31.7*	*+69.1/-57.2*	*-80.2/+96.5*

Notes: 1. Change refers to the movement in the post-tax WACC (and not pre-tax WACC).

11. TRADE AND OTHER PAYABLES

	31 December 2018 $'000	30 June 2018 $'000
Trade payables	57,548	63,888
Accrued rebates, returns and loyalty programs	91,026	66,096
Other payables	29,208	22,577
	177,782	152,561

12. INTEREST-BEARING LOANS AND BORROWINGS

	31 December 2018 $'000	30 June 2018 $'000
Current		
Syndicated loan (working capital facility)	21,265	-
Receivables financing	35,538	-
Lease liabilities	46	58
	56,849	58

	31 December 2018 $'000	30 June 2018 $'000
Non-current		
Syndicated loan	337,775	374,110
Lease liabilities	-	22
	337,775	374,132

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 seven banks. The loan facility was renegotiated in December 2018. Tranche A (US$150m fixed term loan) matures December 2021 and Tranche B (US$250m revolving facility) matures December 2023. The working capital facilities mature 28 July 2019. Tranche B can be drawn in either USD or AUD. The amounts drawn at 31 December 2018 were US$180m and A$110m (2017: US$280m and A$5m).

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 complies with the covenants at reporting date.

At 31 December 2018, the variable interest rate was 4.05% (2017: 3.53%). The Group has entered into interest rate swap contracts to hedge the interest rate risk exposure with 53% of the outstanding US dollar loan amount hedged at 31 December 2018 (30 June 2018: 54%). 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.

During the period, Mayne Pharma cancelled several US Libor interest rate swaps as part of the USD borrowings were converted to AUD borrowings. The cancellation of the interest rate swaps resulted in a gain of $1.8m which was transferred to the profit loss account from the cash flow hedge reserve.

As Mayne Pharma renegotiated the syndicated facility during the period with a lower margin, a gain of $0.5m on the modification of the loan was recognised in the profit loss account.

Receivables financing facility

The receivables facility was established in December 2018, has a limit of US$50m and was drawn to US$25.2m at reporting date. Receivables are sold on a "true sale" basis with no recourse to Mayne Pharma in relation to credit risk, although the receivables continue to be recognised on the Group's balance sheet as accounting derecognition criteria has not been met as Mayne Pharma retains certain risks in relation to the variability of charge-backs, rebates, returns and loyalty programs.

13. OTHER FINANCIAL LIABILITIES

	31 December 2018 $'000	30 June 2018 $'000
Current		
Earn-out liabilities – various products/distribution rights	3,658	916
Deferred consideration – various products/distribution rights	14,959	11,321
Completion of clinical studies obligation relating to acquired asset	600	240
	19,217	12,477

	31 December 2018 $'000	30 June 2018 $'000
Non-current		
Earn-out liabilities – various products/distribution rights	27,034	1,442
Deferred consideration – various products/distribution rights	32,919	3,908
Completion of clinical studies obligation relating to acquired asset	572	-
	60,525	5,350

The Consolidated Entity has recognised various earn-out liabilities relating to various asset purchases. Most earn-outs are based on a percentage of net sales or gross margin and typically payable on a quarterly basis for a period of between two and ten years.

Deferred consideration recognised includes amounts which have contingent conditions such as FDA approvals and on market conditions (e.g. timing of commercial launches, 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, using best estimates as to timing and likelihood of payments.

14. PROVISIONS

	31 December 2018 $'000	30 June 2018 $'000
Current		
Employee entitlements	11,513	12,329
Restructuring	1,888	2,472
	13,401	14,801

	31 December 2018 $'000	30 June 2018 $'000
Non-current		
Employee entitlements	1,781	1,591
Restoration	350	350
	2,131	1,941

15. CONTRIBUTED EQUITY

(a) Issued capital

	31 December 2018 $'000	30 June 2018 $'000
Ordinary shares, fully paid	1,139,615	1,131,761

(b) Movements in share capital

	31 December 2018	
	Number	$'000
Balance at beginning of period	1,564,722,158	1,131,761
Shares issued as part settlement for asset acquisition	6,155,621	5,392
Equity raising costs	-	(31)
Shares issued	65,000	96
Exercise of employee options	4,604,000	2,766
Tax effect of employee LTI shares and employee options	-	(369)
Shares issued to employees under the LTI non-recourse loan funded arrangement (subject to risk of forfeiture) (net of forfeitures)	7,389,742	-
Balance at end of period	**1,582,936,521**	**1,139,615**

16. DIVIDENDS

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

17. COMMITMENTS AND CONTINGENCIES

There were no material changes in commitments.

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

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

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

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

Drug pricing matters – investigations

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

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

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

Drug pricing matters - litigation

In FY17 and FY18, Mayne Pharma Inc was sued alongside other generic pharmaceutical companies in civil complaints alleging anticompetitive conduct in the sale of generic drugs with the specific allegations related to Mayne Pharma focused on the doxycycline hyclate delayed-release market as well as allegations that all defendants were part of an overarching, industry wide conspiracy to allocate markets and fix prices generally. These cases include a complaint by the attorneys general of 45 US states, the District of Columbia and the Commonwealth of Puerto Rico, and class action lawsuits filed by direct purchasers, indirect purchasers and indirect resellers, as well as lawsuits filed by opt out private plaintiffs. These cases have been consolidated into multidistrict litigation pending in the Eastern District of Pennsylvania. Mayne Pharma is strongly defending the allegations made in these civil complaints.

Product liability - amiodarone

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

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 2018.

	$'000
Financial assets	
Current	
Warrants	345
Derivatives designated as hedges	3,247
	3,592
Financial liabilities	
Current	
Earn-out and deferred consideration liabilities	19,217
Syndicate loan and receivables financing	56,803
	76,020
Non-current	
Earn-out and deferred consideration liabilities	60,525
Syndicated loan	337,775
	398,300

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 2018 $'000	30 June 2018 $'000	31 Dec 2018 $'000	30 June 2018 $'000
Assets				
Warrants (options) - HPPI	345	8,316	345	8,316
Market to market valuation – interest rate swaps	3,247	6,747	3,247	6,747
Liabilities				
Earn-out and deferred consideration liabilities	79,742	17,822	79,742	17,822
Interest-bearing loans	394,578	374,110	400,712	378,020

Warrants, as at reporting date, represent options to purchase an additional 32,199,890 shares (30 June 2018 23,504,236) in HPPI. The warrants have the following exercise prices and expiry dates –

	Exercise price (US cents)	Expiry date	Number held Dec 2018
			Number
Unlisted options	12.00	May 2021	23,504,236
Unlisted options	23.00	January 2020	2,608,696
Unlisted options	27.50	January 2023	2,608,696
Unlisted options	23.00	July 2020	1,739,131
Unlisted options	27.50	July 2023	1,739,131
			32,199,890

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

The Consolidated Entity has recognised various earn-out liabilities relating to various asset purchases. Most earn-outs are based on a percentage of net sales or gross margin and typically payable on a quarterly basis for a period of between two and ten years.

Deferred consideration recognised includes amounts which have contingent conditions such as FDA approvals and on market conditions (e.g. timing of commercial launches, 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, using best estimates as to timing and likelihood of payments.

A variation in the discount rate of 1% would impact earn-out and deferred consideration liabilities by approx. $1.6m. A variation in sales performance by 5% would impact earn-out liabilities by approx. $1.4m. Unexpected changes to the timing of product commercial launches and/or entry of a new competitor into the relevant market would further change the deferred consideration liability amounts depending on the timing of the event.

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

	Level 2		Level 3	
	31 December 2018 $'000	30 June 2018 $'000	31 December 2018 $'000	30 June 2018 $'000
Financial Assets				
Warrants (options) - HPPI	-	-	345	8,316
Market to market valuation – interest rate swaps	3,247	6,747	-	-
Financial Liabilities				
Earn-out and deferred consideration liabilities	-	-	79,742	17,822

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:

	2018 Warrants $'000	2018 Earn-out & deferred consideration liabilities $'000
Opening balance	8,316	17,822
Acquisitions	475	55,230
Fair value (decrement) / increment	(8,446)	5,071
Foreign currency restatement	-	2,196
Payments	-	(577)
Closing Balance	345	79,742

During the six-month period ended 31 December 2018, 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:

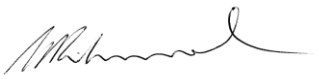
(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position as at 31 December 2018 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, 22 February 2019

AUDITOR'S INDEPENDENT REVIEW REPORT

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Building a better working world

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 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 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 2018 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 2018 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

David Petersen
Partner
Melbourne
22 February 2019