pharmaxis

STATUTORY ANNUAL REPORT 2017

IMPORTANT INFORMATION

This Statutory Annual Report will be lodged with the Australian Securities Exchange and the Australian Securities and Investments Commission and is available from the Pharmaxis website www.pharmaxis.com.au.

Information contained in or otherwise accessible through the websites mentioned in this Statutory Annual Report does not form part of the report unless specifically stated to incorporate the information by reference thereby forming part of the report. All other references in this report to websites are inactive textual references and the information contained therein is not incorporated by reference into this report.

In this Statutory Annual Report, the terms “we”, “our”, “us”, “Pharmaxis”, “Group” and “Company” refer to Pharmaxis Ltd ABN 75 082 811 630 and its subsidiaries unless the context clearly means just Pharmaxis Ltd.

Forward Looking Statements

This Statutory Annual Report contains statements that constitute forward-looking statements. Forward-looking statements appear in a number of places in this Statutory Annual Report. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “expects”, “plans”, “anticipates,” “believes”, “estimates”, “predicts”, “potential”, or “continue”, or the negative of these terms or other comparable terminology. These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we are under no duty to update or revise any of our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Statutory Annual Report.

Currency of Presentation

We publish our consolidated financial statements in Australian dollars. In this Statutory Annual Report, unless otherwise stated or the context otherwise requires, references to ‘dollar amounts’, ‘$’, ‘AUD’ or ‘A$’ are to Australian dollars.

Contents

1. DIRECTORS' REPORT

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2017.

1.1 Information on Directors

The following persons were Directors of Pharmaxis Ltd during the financial year and up to the date of this report.

Malcolm J. McComas (age 62) has been a member of the Board of Directors since July 2003 and was appointed Chairman of the Board on 1 May 2012. Malcolm McComas is a company director and a former investment banker and commercial lawyer. Mr McComas is the principal of McComas Capital and was previously a consultant and a director of Grant Samuel, the investment banking and funds management group, from 1999 to 2009. Mr McComas previously served for 10 years as Managing Director of Investment Banking at County NatWest and its successor organization Salomon Smith Barney (now Citigroup) and in various executive roles with Morgan Grenfell (now Deutsche Bank) in Melbourne, Sydney and London.

Mr McComas has worked with many high growth companies across various industry sectors and has experience in equity and debt finance, acquisitions and divestments and privatisations. Mr McComas has led more than 50 initial public offerings and significant secondary offerings for companies, institutions and governments. Mr McComas is a director of Saunders International Limited, Royalco Resources Limited, Australasian Leukaemia and Lymphoma Group, Chairman of Fitzroy River Corporation Limited and a former director of BC Iron Limited and Consolidated Minerals Limited. Mr McComas has been a member of the Remuneration and Nomination Committee since May 2012, its chairman from May 2012 to December 2016, and is a member of the Audit Committee, its chairman until May 2012.

Gary J. Phillips (aged 56) was appointed Chief Executive Officer and became a member of the Board of Directors on 12th March 2013. Prior to this he was the Chief Operating Officer since June 2008, having previously served as Commercial Director from his joining the Company in December 2003. Mr. Phillips has more than 30 years of operational management experience in the pharmaceutical and healthcare industry in Europe, Asia and Australia. From 1994 to 1998, he was Chief Executive Officer at Ciba Geigy in Hungary (Merged to form Novartis in 1996) where he led the successful launch of a portfolio of new products. After a period of 3 years as an Area Manager for Novartis responsible for 9 countries in Asia Pacific in 2001 he joined Novartis Australia as Group Company Head and Chief Executive Officer of its Pharmaceutical Division, successfully launching leading oncology and ophthalmology products. Mr Phillips holds a B. Pharm. in Pharmacy with honors from Nottingham University in the UK, an MBA from Henley Management College and is a Graduate of the Australian Institute of Company Directors.

William L. Delaat AM (age 66) has been a member of the Board of Directors since June 2008. Mr Delaat has over 40 years' experience in the global pharmaceutical industry, most recently as the managing director of the Australian subsidiary of Merck & Co., a position he held from 1997 until his retirement in 2008. During his career Mr Delaat has held executive positions in both Europe and Australia for Merck and AstraZeneca. Mr Delaat is experienced in sales and marketing and has been responsible for international product launches and commercialisation of respiratory products. Mr Delaat was chairman of Medicines Australia, and the Pharmaceuticals Industry Council from 2008 to 2012. He is also the former Chairman of EnGeneIC Ltd, an unlisted Australian biotech company, and a member of other Government appointed Councils and Not-for-Profit Boards. Mr Delaat holds a Bachelor of Science, Physiology & Chemistry from the University of London and is a Graduate of the Australian Institute of Company Directors. Mr Delaat is a member of the Audit Committee and has been its chairman since 1 May 2012.

Simon H.W. Buckingham PhD, GAICD (age 55) has been a member of the Board of Directors since 25 July 2012. Dr Buckingham has over 25 years' experience in the global pharmaceutical industry across a range of functions and a variety of therapeutic areas. Now based in Sydney, he is currently a non-executive director of several companies, as well as a Global Advisor / Consultant to Swiss biotech Idorsia Pharmaceuticals Ltd.

Dr Buckingham was President, Global Corporate and Business Development at Actelion from 2005-2011, a position which spanned licensing, M&A, alliance management and corporate strategic planning. He served as President, North America and Asia-Pacific at Actelion from 2000-2005, with responsibility for all commercial operations in the region. He was the founding President of Actelion Pharmaceuticals US. From 1998-2000 he worked in sales and marketing for Parke-Davis (now part of Pfizer) in the US and prior to that served in roles in sales, marketing and development at Roche, both in Switzerland and Australia, for 9 years. Dr Buckingham is currently also a non-executive director of Admedus Ltd (ASX listed), a global healthcare company that develops and commercialises next generation medical technologies, specialising in tissue scaffolds for cardiovascular repair and reconstruction; Vaxxilon AG, a European based start-up, founded by the Max Planck Society and Actelion, dedicated to the discovery, development and commercialisation of innovative synthetic carbohydrate vaccines; Owkin Inc (Paris and New York), an Artificial Intelligence company aimed at improving medical predictions and patient care; and the Can Too Foundation, a non-profit organisation focused on health and wellbeing, as well as raising funds for cancer research.

He holds a Bachelor of Veterinary Science degree from the University of Sydney (1984), a PhD from the University of Melbourne (1988), a Graduate Management Qualification from the AGSM, University of NSW (1990) and is a Graduate of the Australian Institute of Company Directors. Dr Buckingham is a member of the Audit Committee and the Remuneration and Nomination Committee, its chairman since December 2016.

Dr Kathleen M. Metters (age 60) was appointed to the Board of Directors on 7th June 2017. Dr. Kathleen Metters has over 25 years of experience in the discovery and development of novel therapies for treatment of serious diseases. She is currently working as an independent biopharma consultant and as senior advisor for New York-based Bridge Medicines. From 2011-2014 Dr Metters was President and Chief Executive officer for Lycera Corp., a biopharmaceutical company pioneering innovative approaches to novel oral medicines for treatment of autoimmune diseases and cancer. Under her leadership, Lycera developed a robust pipeline of proprietary and partnered immune modulator programs which led, in June 2015, to an exclusive global collaboration with Celgene Corporation.

From 1988 to 2011 Dr Metters was employed by Merck & Co. In 2009 she was appointed to design and establish External Discovery and Preclinical Sciences, created to expand Merck's scientific network to the greater research community in academia, biotechnology, and government, building partnerships in life sciences, medicine, engineering, and information technology. From 2005 to 2009 Dr Metters was head of Worldwide Basic Research for Merck & Co. In this role, she had oversight of all research activities at major sites around the globe; across all therapeutic modalities and all therapeutic areas. From 2002 to 2005 Dr Metters was head of Merck Frosst which under her leadership, additional compounds were moved into clinical development for treatment of respiratory, cardiovascular and bone disorders. During this time, she was the Basic Research Therapeutic Area Head for the Respiratory Franchise and from 2003-2005 was chair of the Respiratory Worldwide Business Strategy Team, reporting directing to the CEO, with responsibility for the discovery, development and commercialization strategy for all respiratory products. Prior to that Dr Metters worked in research focused on the arachidonic acid cascade which resulted in the development of SINGULAIR®, a once-daily oral therapy for asthma and allergic rhinitis. For her work on SINGULAIR®, she was one of the team of scientists who won the Prix Galien Canada 2000 for excellence in innovative research.

Dr Metters graduated with a B.S. in biochemistry from the University of Manchester Institute for Science and Technology, and a Ph.D. from Imperial College of Science and Technology in London. She completed post-doctoral training at the Centre National de la Recherche Scientifique in France and at the Clinical Research Institute of Montréal.

There are no family relationships between any Senior Executive Officers or Directors.

1.2 Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each Director was:

	Board Meetings		**Meetings of committees**			
			Audit		**Remuneration & Nomination**	
	A	B	A	B	A	B
MJ McComas	12	12	4	4	3	3
GJ Phillips	12	12	–	–	–	–
WL Delaat	12	11	4	4	3	3
SHW Buckingham	12	12	4	4	3	3
KM Metters	–	–	–	–	–	–

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

1.3 Indemnification and Insurance of Directors

The Pharmaxis Constitution provides that, except to the extent prohibited by the Corporations Act 2001, each of our officers shall be indemnified out of Company funds against any liability incurred by such person in his or her capacity as an officer.

The Company has entered into Deeds of Access to Documents and Indemnity to indemnify Directors and certain executive officers in addition to the indemnification provided for in the Constitution. These provisions and agreements are necessary to attract and retain qualified directors and executive officers.

At present, there is no pending litigation or proceeding involving any Directors, officers, employees or agents where indemnification by the Company will be required or permitted, and the Company is not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Directors' and officers' liability insurance is provided for the indemnification of Directors and officers against certain liabilities incurred as a director or officer, including costs and expenses associated in successfully defending legal proceedings. This insurance will be maintained in the future. During the financial year, a premium of $57,261 was paid to insure the directors and officers of the Group for the policy year ended 26 September 2017. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. Policy exclusions include: liabilities that arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group; pollution that could reasonably be known to management; and, bodily injury and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

1.4 Company Secretary

The Company Secretary is Mr David M McGarvey, CA ANZ, GAICD, who was appointed to the position of Company Secretary in 2002. Before joining Pharmaxis Ltd he held similar positions with both listed and unlisted companies, including Memtec Limited, which was listed on the Australian Securities Exchange, NASDAQ and the New York Stock Exchange.

1.5 Principal Activities

During the year the principal continuing activities of the Group consisted of the research, development and commercialisation of human healthcare products for the treatment and management of fibrotic and inflammatory diseases.

1.6 Review and Results of Operations

A review of the operations of the Group for the financial year ended 30 June 2017 is set out in Section 5 of this Statutory Annual Report.

1.7 Remuneration Report, Shares under option and Shares issued on the exercise of options

Refer to Section 2 of this Statutory Annual Report.

1.8 Dividends

No dividends were paid during the year and the Directors have not recommended the payment of a dividend.

The Company has never declared or paid any cash dividends on ordinary shares and does not anticipate paying a cash dividend in the foreseeable future.

1.9 Significant Changes in the State of Affairs

Refer to Section 5 of this Statutory Annual Report.

1.10 Matters Subsequent to the End of the Financial Year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

1.11 Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the Group and the expected results of operations is included in Section 5 of this Statutory Annual Report to the extent it does not prejudice the interests of the Group.

1.12 Environmental Regulation

The Group is subject to environmental regulation in respect of its manufacturing activities including the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and Waste Minimisation & Management Act 1995. Pharmaxis Ltd has been granted consent to discharge industrial trade wastewater from Sydney Water Corporation.

1.13 Rounding

The Group is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

1.14 Non-Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Group are important.

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 21 to the Annual Financial Report included in Section 6 of this Statutory Annual Report.

The Board of Directors have considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

1.15 Auditor's Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is on the following page.

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Pharmaxis Ltd for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Pharmaxis Ltd and the entities it controlled during the period.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
10 August 2017

1.16 Auditor

PricewaterhouseCoopers continue in office in accordance with section 327 of the Corporations Act 2001.

1.17 Resolution of the Board

This report is made in accordance with a resolution of directors.

Gary J Phillips

Director
Sydney
10 August 2017

2 REMUNERATION REPORT (Audited)

Remuneration Report

The remuneration report is set out under the following main headings:

2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers

2.3 Service Agreements with Senior Executive Officers

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers

2.6 Equity Remuneration.

2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers

Introduction:

Pharmaxis requires a board and senior management team with both technical capability and importantly, relevant international pharmaceutical company experience. Competitive remuneration practices are required to attract, retain and incentivise such executives and directors. To assist its deliberations, the Directors make use of surveys of Australian companies in the life science area and advice of recruiters and consultants who provide their analysis and understanding of the broader Australian healthcare and general listed company markets.

In order to obtain the experience required, it has historically been necessary to recruit both directors and management from the international marketplace.

Senior Executive Officer remuneration includes a mix of short and long-term components. Remuneration of the Executive Director and Senior Executive Officers includes a meaningful proportion that varies with Group and individual performance. Variable cash incentives are subject to performance assessment by the Remuneration and Nomination Committee. Performance targets in the main relate to objectives and milestones from the Group's annual business plan. The business plan is designed to build a business that generates sustainable earnings, in turn generating long term shareholder value through share price appreciation and distributions to shareholders. Individual and Group performance targets are agreed by the Remuneration and Nomination Committee and the full Board each year. The annual performance of Senior Executive Officers is reviewed by the Remuneration and Nomination Committee and the Board each year.

In the event that misconduct by the Chief Executive Officer and/or Chief Financial Officer results in the financial statements for any year not complying with financial reporting requirements, all bonuses and incentive payments made to the Chief Executive Officer and Chief Financial Officer in relation to the relevant years are repayable in full.

Non-Executive Directors do not have a variable component of their remuneration.

Equity Remuneration:

Equity remuneration is an important component of attracting and retaining talented individuals while staying within the fiscal constraints of a developing company.

Equity Remuneration Granted to Non-Executive Directors

Non-executive directors do not receive equity remuneration.

Equity Remuneration Granted to Senior Executive Officers

In 2010 the Board established two equity remuneration plans to provide for the long term reward, incentive and retention of all employees in the Group:

- The Pharmaxis Performance Rights Plan enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as "Performance Rights" to eligible employees of the Group. Senior Executive Officers and other eligible employees are invited by the Remuneration and Nomination Committee to participate in this plan.
- The Pharmaxis Share Plan grants up to $1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, depending upon local laws, Pharmaxis may grant $1,000 of zero exercise price options in place of ordinary shares. Senior Executive Officers do not participate in this plan.

Performance rights plans and share plans are both widely accepted in the Australian context to provide equity remuneration to management and employees of listed companies. Performance rights plans typically provide lower potential returns when compared to traditional options, but by also reducing the risk for employees they provide a stable equity remuneration instrument to reward and retain employees over the longer term. Each year the Board determines whether to grant shares and performance rights. Performance rights have been granted in the 2010, 2013, 2016 and 2017 financial years.

Key features of the Pharmaxis Performance Rights Plan are as follows:

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position and responsibility, corporate performance in meeting annual business plan objectives, the employee's performance in meeting annual objectives, the employee's salary, and the Pharmaxis share price.
- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The Board adopts vesting terms and conditions to suit the business conditions in the year of grant. The performance rights lapse in the event the employee ceases to be an employee before the vesting date.

- In 2010 the Board set the vesting term as the third anniversary of the grant date. For subsequent grants of performance rights, other than 2013 (see next bullet point) the Board determined to vest half the performance rights two years from the grant date and the other half to vest three years from the grant date.
- On each occasion other than in 2013, the Board considered but did not impose performance criteria at the point of vesting. Performance rights are granted at the end of the financial year and performance during the year is one factor considered by the Board in determining the quantum of grants. Additional performance criteria at the point of vesting were not considered to be appropriate given the stage of the Company's development, the Company's market valuation and the requirement for agility in adapting corporate objectives in response to the drug development process. The Board considers that the interests of shareholders are better served by a conservative approach to the quantum of performance rights granted, a relative balanced vesting period and by imposing restrictions on resale as discussed below.
- The vesting terms of performance rights granted in 2013 were developed in conjunction with a restructuring of the business announced in May 2013. The performance rights vested in three instalments. Thirty percent vested on 31 January 2014 with no performance criteria and were designed to provide a retention incentive to Senior Executives and other key employees over what was a particularly challenging time. Thirty five percent vested on 31 July 2014 and the remaining thirty five percent vested on 31 July 2015. The 2013 grant covered performance for both the 2014 and 2015 financial years and as such no grant was made in in the 2015 financial year.
- The performance rights granted 26 July 2016 vest over a three year period, fifty percent vests at 30 June 2018 and fifty percent at 30 June 2019.
- The performance rights granted 18 July 2017 vest over a three year period, fifty percent vests at 30 June 2019 and fifty percent at 30 June 2020.

- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
  - for performance rights granted in 2010 shares issued upon exercise were restricted from sale for four years from grant date.
  - For subsequent grants of performance rights other than in 2013, shares issued upon exercise are restricted from sale for three years from grant date.
  - For performance rights granted in 2013 shares issued upon exercise were not subject to any sale restriction. The Directors utilised the 2013 grant of performance rights as a (non-cash) retention and performance incentive closely tied to the revised business plan and therefore chose not to impose any sale restrictions other than as described immediately below.
  - Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

Non-Executive Directors:

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee of the Board. The fees were last altered in the 2014 financial year at which time the fees were reduced. The fees are as follows:

- a flat annual fee of $100,000 for the Chairman with no additional payments for serving on Board committees, and including any applicable statutory superannuation; and
- a base fee of $70,000 is paid to Non-Executive Directors other than the Chairman, with no additional payments for serving on Board committees, and including any applicable statutory superannuation.

Non-Executive directors do not receive equity remuneration.

Non-Executive Directors' fees (including statutory superannuation) are determined within an aggregate directors' fee pool limit, any changes to which require approval by shareholders. The shareholder approved pool currently stands at a maximum of $600,000 per annum in total.

Retirement Allowances for Directors

Termination payments apply only to Executive Directors, as discussed below.

Executive Directors and Senior Executive Officers:

There are four components to the remuneration of Executive Directors and Senior Executive Officers:

- a base salary paid in cash or packaged at the executive's discretion within Australia Fringe Benefit's Tax guidelines as a total cost package. Base salaries are reviewed by the Remuneration and Nomination Committee effective 1 January each year;
- superannuation of 9.5 percent of base salary;
- a variable cash incentive component payable annually dependent upon achievement of performance targets set and approved by the Remuneration and Nomination Committee and Board. Individual and overall performance targets are set by reference to the components of the Group's annual business plan. The Directors believe the Group's approach to variable cash incentive is consistent with the Group's industry sector; and
- equity remuneration as discussed above.

Base pay for Senior Executive Officers is reviewed annually to ensure the executive's pay is commensurate with the responsibilities and contribution of the executive. An executive's pay is also reviewed on promotion. The typical increase in base salary at 1 January 2017 was 1.7%, compared to 1.9% at 1 January 2016.

In establishing the 2017 target variable cash incentives, the Board determined the following percentage of base salary as the appropriate quantum:

	Percentage of base salary	
	Corporate objectives	**Personal objectives**
Chief Executive Officer	30%	-
Other Senior Executives	10%	10%

Corporate objectives are based on the Group's 2017 business plan. Corporate and individual personal objectives are each weighted when objectives are set at the beginning of the financial year and at the end of the financial year performance is assessed on each objective individually.

Corporate objectives for 2017 included:

- Progressing the Company's early stage drug candidates through their development programs. Specific drug discovery objectives included progressing one compound to be phase 1 ready and one compound to the commencement of formal pre-clinical development
- Confirmed interest from pharmaceutical companies in certain drug development programs of the Company.
- Top line reporting of the clinical trial of Bronchitol for the US market (CF303) and transfer of various technical streams to the Company's US partner Chiesi.
- Specific commercial objectives in relation to the approval, reimbursement and sale of Bronchitol and Aridol in various international markets and net cost reduction initiatives.
- Management of cash funds within budget.
- Engagement with existing and potential Australian and overseas institutional investors.

The Board assessed overall performance in achieving the 2017 corporate objectives at 90%. The assessed individual performance of individual Other Senior Executive's performance varied between 84% and 94%.

Termination payments

Termination payments do not apply to Non-Executive Directors. The employment contract for the Chief Executive Officer can be terminated immediately by the Board for serious misconduct and with six months' notice without cause by either party. Employment contracts for Other Senior Executive Officers can be terminated immediately by the Board for serious misconduct and with a maximum of three months' notice without cause by either party. Unless otherwise required by law, no additional payments are required to be paid on termination.

Equity Remuneration

Information on the Equity Remuneration is set out in Note 30 to the Annual Financial Report included in Section 6 of this Statutory Annual Report. In assessing performance for the purposes of granting equity remuneration the Remuneration and Nomination Committee considers performance and progress in the current year in context of the Group's longer term business plan objectives.

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers

Details of the remuneration of the Directors and the Senior Executive Officers ("key management personnel" as defined in AASB 124 Related Party Disclosures) of Pharmaxis Ltd and the Group are set out in the following tables.

The Chief Executive Officer and Senior Executive Officers of the Group and the entity are:

Name	***Position***	***Employer***
Gary Jonathan Phillips	Chief Executive Officer	Pharmaxis Ltd
Brett Charlton	Medical Director	Pharmaxis Ltd
Wolfgang Jarolimek	Head of Drug Discovery	Pharmaxis Ltd
David Morris McGarvey	Chief Financial Officer and Company Secretary	Pharmaxis Ltd
Kristen Morgan	Alliance Management	Pharmaxis Ltd

Included in the above are the four highest remunerated Group and entity executives.

The payment of cash bonuses to Senior Executive Officers is dependent on the satisfaction of performance conditions as discussed in Section 2.1 of this Statutory Annual Report. Performance Rights are not granted, and for components of the 2013 grant were not vested, unless approved by the Remuneration & Nomination Committee. Other elements of remuneration are not directly related to performance.

2017	**Short term benefits**		**Post-employment benefits**	**Total Cash Remuneration**	**Leave Entitlements [1]**	**Share based payment**	**Total**
Name	**Cash salary or Directors' fees**	**Cash bonus/ incentive**	**Superannuation**			**Value [3]**	
	A$	**A$**	**A$**	**A$**	**A$**	**A$**	**A$**
Non executive Directors							
MJ McComas *Chairman*	100,000	–	–	100,000	–	–	100,000
WL Delaat	70,000	–	–	70,000	–	–	70,000
SHW Buckingham	63,927	–	6,073	70,000	–	–	70,000
KM Metters	4,603	–	–	4,603	–	–	4,603
Sub total Non-executive Directors	**238,530**	**–**	**6,073**	**244,603**	**–**	**–**	**244,603**
Executive Director							
GJ Phillips	423,200	113,506	39,603	576,309	2,535	219,817	798,661
Senior Executive Officers							
B Charlton	331,382	58,815	31,481	421,678	4,082	111,147	536,907
WG Jarolimek	314,438	60,987	33,932	409,357	28,343	161,079	598,779
DM McGarvey	347,287	62,607	32,767	442,661	6,829	154,309	603,799
K Morgan	148,710	26,052	16,602	191,364	7,308	63,473	262,145
Totals	**1,803,547**	**321,967**	**160,458**	**2,285,972**	**49,097**	**709,825**	**3,044,894**

(1) Represents net movement in entitlements to annual leave and long service leave.

(2) There were no non-monetary benefits provided.

(3) The value of share based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share based remuneration over the vesting period.

2016	Short term benefits		Post-employment benefits	Total Cash Remuneration	Leave Entitlements [1]	Share based payment	Total
Name	**Cash salary or Directors' fees**	**Cash bonus/ incentive**	**Superannuation**			**Value** [3]	
	A$	**A$**	**A$**	**A$**	**A$**	**A$**	**A$**
Non executive Directors							
MJ McComas *Chairman*	100,000	–	–	100,000	–	–	100,000
WL Delaat	70,000	–	–	70,000	–	–	70,000
SHW Buckingham	63,927	–	6,073	70,000	–	–	70,000
Sub total Non-executive Directors	**233,927**	**–**	**6,073**	**240,000**	**–**	**–**	**240,000**
Executive Director							
GJ Phillips	409,510	100,757	38,141	548,408	12,300	191,416	752,124
Senior Executive Officers							
B Charlton	325,526	54,628	30,925	411,079	8,775	73,836	493,690
WG Jarolimek	282,660	47,434	26,853	356,947	20,108	158,543	535,598
DM McGarvey	338,817	56,858	32,188	427,863	(4,893)	190,137	613,107
K Morgan	128,360	25,209	12,194	165,763	6,800	13,406	185,969
Totals	**1,718,800**	**284,886**	**146,374**	**2,150,060**	**43,090**	**627,338**	**2,820,488**

(1) Represents net movement in entitlements to annual leave and long service leave.

(2) There were no non-monetary benefits provided.

(3) The value of share based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share based remuneration over the vesting period.

Remuneration subject to risk

Of the total amount of remuneration paid to the Chief Executive Officer and Other Senior Executive Officers, both the payment of the bonus and the granting and vesting of options (excluding sign on options) are subject to Group and individual employee performance. Section 2.5 of the Remuneration Report highlights the risk associated with the bonus this year.

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the above tables.

Relative proportions of fixed vs variable remuneration expense

	Fixed Remuneration		At risk - STI		At risk – LTI [1]	
Name	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non executive Directors						
MJ McComas *Chairman*	100%	100%	–	–	–	–
WL Delaat	100%	100%	–	–	–	–
SHW Buckingham	100%	100%	–	–	–	–
KM Metters	100%	–	–	–	–	–
Executive Director						
GJ Phillips	58%	61%	14%	13%	28%	26%
Senior Executive Officers						
B Charlton	68%	74%	11%	11%	21%	15%
WG Jarolimek	63%	61%	10%	9%	27%	30%
DM McGarvey	64%	60%	10%	9%	26%	31%
K Morgan	66%	79%	10%	14%	24%	7%

(1) Since the long-term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of remuneration consisting of options, based on the value of options expensed during the year. Where applicable, the expenses include negative amounts for expenses reversed during the year due to a failure to satisfy the vesting conditions.

2.3 Service Agreements with Senior Executive Officers

In addition to their respective base salaries, each of the following Senior Executive Officers may be awarded an annual performance bonus upon satisfaction of certain milestones upon the sole discretion of the Remuneration and Nomination Committee. Other material terms of each of these agreements are identified below.

Senior Executive Officer [3]	**Annual Base Salary Effective 1 July 2017 [1] $**	**Superannuation Contributions [2] $**
Gary J Phillips, *Chief Executive Officer and Managing Director*	420,391	39,937
Brett Charlton, Ph.D., *Medical Director*	334,175	31,747
Wolfgang G Jarolimek *Head of Drug Discovery*	334,175	31,747
David M McGarvey, C.A., *Chief Financial Officer and Company Secretary*	347,819	33,043
Kristen Morgan[4] *Alliance Management*	152,492	14,487

(1) Annual base salaries may be subject to increase upon review annually by the Remuneration and Nomination Committee; and

(2) The Company makes superannuation fund contributions equal to 9.5% of the annual base salary per year for the benefit of the Senior Executive Officers.

(3) The employment contracts for all Senior Executive Officers are evergreen in nature.

(4) Part time position

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers

Prior Year Grants of Equity to Non-Executive Director

The terms and conditions of each grant of equity affecting remuneration of Non-Executive Directors in this or future reporting periods are as follows:

Subsequent to receipt of shareholder approval on 18 October 2012, the Group granted 30,000 zero consideration, zero exercise priced options to Dr Simon Buckingham on the following terms:

Grant date	18 October 2012
Number of zero consideration, zero exercise price options	30,000
Grant consideration	Nil
Exercise price	Nil
Vesting	The third anniversary of grant provided the Director is still in office
Restrictions	Shares issued on exercise of the options are restricted from sale by the Director without prior Board approval

Grants of Equity under the Employee Performance Rights Plan to Senior Executive Officers and nominated employees

The terms and conditions of each grant of performance rights affecting remuneration of Directors and Senior Executive Officers in this or future reporting periods are as follows. For vesting conditions refer to 2.1 above:

Grant date	Expiry date	Exercise price	Value per performance right at grant date	Number of performance rights granted	Number of option grantees	Vesting Date (1)
31 July 2015	30 June 2025	$ Nil	$0.225	1,269,000	4	50% at 30 June 2017 and 50% at 30 June 2018
31 July 2015	30 June 2025	$ Nil	$0.230	811,000	1	50% at 30 June 2017 and 50% at 30 June 2018
26 July 2016	30 June 2026	$ Nil	$0.282	1,737,000	4	50% at 30 June 2018 and 50% at 30 June 2019
29 November 2016	30 June 2026	$ Nil	$0.266	827,000	1	50% at 30 June 2018 and 50% at 30 June 2019

(1) Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

The Pharmaxis Corporate Governance Framework prohibits Directors and Senior Executive Officers from trading in Pharmaxis derivatives.

Equity Grants in 2016 to Directors and Senior Executive Officers

Options

The granting of market priced options under the Employee Option Plan was discontinued from October 2009. Further information on these options is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 30 to the Annual Financial Report in Section 6 of this Statutory Annual Report.

Performance Rights

Details of performance rights over ordinary shares provided as remuneration to each Director and each Senior Executive Officer is set out below. When exercisable, each performance right is convertible into one ordinary share. Performance rights are issued at a zero purchase price. Vesting details are set out in the subsequent table. Further information on the performance rights is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 30 to the Annual Financial Report in Section 6 of this Statutory Annual Report. The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below. Fair value at grant date is assessed using the closing share price on the date of grant.

Name	**Performance rights granted during the year**				**Number of rights vested during the year**	
	2017			2016	**2017**	2016
	Expiration Date	**Exercise Price**	**Number**	Number		
Directors of Pharmaxis Ltd						
MJ McComas *Chairman*	**–**	–	**–**	–	**–**	–
GJ Phillips *Chief Executive Officer*	**29 November 2026**	–	**827,000**	1,626,000	**405,500**	1,515,000
WL Delaat	**–**	–	**–**	–	**–**	–
SHW Buckingham	**–**	–	**–**	–	–	30,000
KM Metters	**–**	–	**–**	–	–	–
Senior Executive Officers						
B Charlton	**30 June 2026**	–	**394,000**	547,000	**193,500**	431,250
WG Jarolimek	**30 June 2026**	–	**571,000**	896,000	**168,000**	742,000
DM McGarvey	**30 June 2026**	–	**547,000**	1,073,000	**201,500**	950,000
K Morgan	**30 June 2026**	–	**225,000**	143,000	**71,500**	2,450

Shares Issued on Exercise of Remuneration Options

Name	Date of grant of options	Amount paid per share on exercise	Ordinary shares issued on exercise of options during the year	
			2017	2016
Senior Executive Officers of the Group				
GJ Phillips	29 June 2012	$ Nil	**–**	75,000
GJ Phillips	29 November 2013	$ Nil	**–**	700,000
GJ Phillips	20 November 2015	$ Nil	**815,000**	**–**
B Charlton	7 June 2013	$ Nil	**–**	271,250
WG Jarolimek	15 November 2010	$ Nil	**–**	9,000
WG Jarolimek	29 June 2012	$ Nil	**–**	75,000
WG Jarolimek	7 June 2013	$ Nil	**–**	182,000
DM McGarvey	7 June 2013	$ Nil	**–**	280,000
DM McGarvey	31 July 2015	$ Nil	**550,000**	**–**

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers

Details of Director and Senior Executive Officer Remuneration: Cash Bonuses and Performance Rights

For each cash bonus and grant of performance rights included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

Performance rights granted in 2012, 2015 and 2016 vest 50% two years from the date of grant and 50% three years from the date of grant provided the Senior Executive Officer remained an employee of the Group at the relevant vesting date. Performance rights granted 2013 vested in three instalments. Thirty percent vested on 31st January 2014. Subject to achievement of set performance criteria, a maximum of thirty five percent vested on 31st July 2014 and a maximum of 35% vested on 31st July 2015. Unvested performance rights lapse in the event the Senior Executive Officer ceases to be an employee before the relevant vesting date. In relation to the component of performance rights potentially vesting at 31 July 2014, 45% vested based on performance in the 2014 financial year, 35% failed to vest based on performance in the 2014 financial year and 20% lapsed due to the employee no longer being employed by the group. In relation to the component of performance rights potentially vesting on 31 July 2015, 100% vested.

	Cash Bonus		Performance Rights					
Name	**Payable**	**Forfeited**	**Year granted**	**Vested**	**Forfeited**	**Financial years in which options may vest**	**Minimum total value of grant yet to vest**	**Maximum total value of grant yet to vest**
	%	**%**		**%**	**%**		**$**	**$**
Non-executive Directors								
MJ McComas	–	–	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–	–	–
SHW Buckingham	–	–	–	–	–	–	–	–
KM Metters	–	–	–	–	–	–	–	–
Executive Director								
GJ Phillips	90%	10%	2016 2017	75 –	– –	2017, 2018 2018, 2019	–	93,265 219,817
Senior Executive Officers								
B Charlton	88%	12%	2016 2017	65 –	– –	2017, 2018 2018, 2019	–	43,538 111,147
WG Jarolimek	91.25%	8.75%	2016 2017	81 –	– –	2017, 2018 2018, 2019	–	37,800 161,079
DM McGarvey	90%	10%	2016 2017	89 –	– –	2017, 2018 2018, 2019	–	27,675 154,309
K Morgan	86.88%	13.12%	2016 2017	50 –	– –	2017, 2018 2018, 2019	–	16,088 63,473

Share-Based Compensation Paid to Directors and Senior Executive Officers

Further details relating to options and performance rights granted to, exercised by or lapsed, for Directors and Senior Executive Officers during the financial year ended 30 June 2017 are set out below

	A	B	C	D
Name	**Remuneration consisting of options**	**Value at grant date**	**Value at exercise date**	**Value at lapse date** (Granted 2012 to 2013)
		$	**$**	**$**
Performance Rights				
GJ Phillips	40%	219,817	222,006	–
B Charlton	26%	111,147	–	–
WG Jarolimek	40%	161,079	–	–
DM McGarvey	35%	154,309	153,738	–
K Morgan	33%	63,473	–	–

A = The percentage of the value of remuneration consisting of options, based on the value at grant date as set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The difference between the market price of shares and the exercise price of options at exercise date that were granted in prior years as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Share Holdings of Directors and Senior Executive Officers

The numbers of shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their close family members, are set out below. (Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity).

2017 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
MJ McComas	339,999	–	200,000	539,999
GJ Phillips	1,865,000	815,000	(400,000)	2,280,000
W Delaat	33,334	–	–	33,334
SHW Buckingham	200,000	–	–	200,000
KM Metters	–	–	–	–
Other key management personnel of the Group				
Ordinary shares				
B Charlton	602,214	–	–	602,214
WG Jarolimek	621,550	–	–	621,550
DM McGarvey	900,127	550,000	(550,000)	900,127
K Morgan	51,340	–	(43,480)	7,860

2016 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
MJ McComas	339,999	–	–	339,999
GJ Phillips	1,090,000	775,000	–	1,865,000
W Delaat	33,334	–	–	33,334
SHW Buckingham	200,000	–	–	200,000
Other key management personnel of the Group				
Ordinary shares				
B Charlton	330,964	271,250	–	602,214
WG Jarolimek	355,850	266,000	(300)	621,550
DM McGarvey	620,127	280,000	–	900,127
K Morgan	51,340	–	–	51,340

Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2017.

Loans to Directors and executives

Nil. Not permitted under Pharmaxis corporate governance framework.

2.6 Equity Remuneration

Shares Under Equity Plans

Total unissued ordinary shares under equity plans at the date of this report are as follows:

Equity Plan movement	Number
Total unissued ordinary shares under plans at 30 June 2017 – refer Note 30 to the Annual Financial Report included in Section 6 of this Statutory Annual Report	10,103,750
Options lapsed during the period from 1 July 2017 to 10 August 2017 (Granted in 2007)	(17,000)
Performance rights granted on 18 July 2017	3,142,000
	13,228,750

No option or performance right holder has any right to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options

There were no ordinary shares issued during the year ended 30 June 2017 on the exercise of options granted under the Employee Option Plan.

Shares issued on the exercise of performance rights and zero exercise priced share plan

The following ordinary shares were issued during the year ended 30 June 2017 on the exercise of performance rights granted under the Performance Rights Plan or zero exercise priced option share plan. No amounts are unpaid on any of the shares.

Date performance rights granted	Issue price of shares	Number of shares issued
7 September 2010	$ Nil	7,000
29 June 2012	$ Nil	30,000
7 June 2013	$ Nil	368,387
31 July 2015	$ Nil	550,000
20 November 2015	$ Nil	815,000
		1,770,387

3. CORPORATE GOVERNANCE

Pharmaxis has developed a corporate governance framework including supporting policies and practices consistent with the Corporate Governance Principles and Recommendations 3rd Edition ("ASX Governance Principles").

The Board reviews and updates the corporate governance framework as required.

A description of the Pharmaxis corporate governance framework, supporting policies and required ASX corporate governance disclosures may be found in the corporate governance section on the Pharmaxis website at www.pharmaxis.com/investor_centre/corporate_governance. The Company has filed Appendix 4G with the ASX, providing a key to where our corporate governance disclosures can be located.

4. SENIOR MANAGEMENT

Executive Director and Senior Executive Officers

Information about Executive Director and Senior Executive Officers as of 10th August 2017.

Gary J. Phillips., Refer to Directors' Report.

Brett Charlton, Ph.D., (aged 61) is a co-founder of Pharmaxis and has been Medical Director and was a member of the Board of Directors from June 1998 to March 2006. Dr Charlton is the author of more than 60 scientific papers and has over 16 years of experience in clinical trial design and management. Dr Charlton was founding Medical Director of the National Health Sciences Centre and established its Clinical Trials Unit. Prior to joining us, Dr Charlton held various positions with the Australian National University, Stanford University, the Baxter Centre for Medical Research, Royal Melbourne Hospital, and the Walter and Eliza Hall Institute. Dr Charlton holds an M.B.B.S. with honors from the University of New South Wales and a Ph.D. from the University of New South Wales.

Wolfgang G. Jarolimek, Ph.D., (aged 53) joined Pharmaxis in September 2010 as Manager in vitro Pharmacology and was appointed Head of Drug Discovery in August 2012. Dr Jarolimek has more than 15 years' experience in pharmaceutical drug discovery and has published more than 20 peer reviewed articles. From 2002 to 2010 Dr Jarolimek was Director of Assay Development and Compound Profiling at the GlaxoSmithKline Center of Excellence in Drug Discovery in Verona, Italy. In addition to chairing early drug discovery efforts locally he also had global responsibilities for ion channel screening and implementing safety-related screening. From 1998 to 2002 Dr Jarolimek worked at the Neuroscience Center of Merck, Sharp and Dohme in Harlow, England, as Senior Research Scientist in the electrophysiology group. Prior to joining pharma companies he spent 8 years as post-doc at the Max-Plank Institute in Munich, Germany; Baylor College of Medicine, Houston, Texas; Rammelkamp Center, Cleveland Ohio; and University of Heidelberg, Germany. Dr Wolfgang Jarolimek holds a B.Sc. in Pharmacy and a PhD from the University of Saarbrücken, Germany. In 1997 he became Assistant Professor in Physiology at the University of Heidelberg, Germany.

David M. McGarvey, C.A. ANZ, C.P.A. GAICD, (aged 61) has been Chief Financial Officer and Company Secretary since December 2002. Mr McGarvey has twenty six years' experience in overseeing the financial affairs of different Australian companies. From 1998 to 2002, Mr McGarvey served as Chief Financial Officer of the Filtration and Separations Group of U.S. Filter. From 1985 to 1997, Mr McGarvey served as Chief Financial Officer of Memtec Limited. While at Memtec, Mr McGarvey oversaw the U.S. listing of Memtec on the Nasdaq Global Market and the New York Stock Exchange and managed numerous international merger and acquisition transactions. From 1975 to 1985, Mr McGarvey held various positions at PricewaterhouseCoopers. Mr McGarvey holds a B.A. in Accounting from Macquarie University and was admitted to Chartered Accountants ANZ in 1981, to the membership of CPA Australia in 1993 and is a Graduate of the Australian Institute of Company Directors

Kristen Morgan BSc, PGDipBusAdmin, MMedSc (aged 45) has responsibility for Alliance Management and Medical and Regulatory Affairs. Ms Morgan joined Pharmaxis in August 2008 as Head of Medical Affairs and has 19 years experience in the pharmaceutical industry. Ms Morgan previously held a senior role in Medical Affairs at Sanofi-aventis, and held a commercial/sales role at GSK. Ms Morgan holds a B.Sc from Queensland University (major in pharmacology), a Postgraduate Diploma of Business Administration from Queensland University of Technology and a Masters of Medical Science (Drug Development) from University of New South Wales.

5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this report. The Company's financial year ends on 30 June.

5.1 Review of 2017 Operations

Pharmaxis is an Australian pharmaceutical research company focused on inflammation and fibrosis with a portfolio of products at various stages of development and approval.

Established in 1998 and listed on the Australian Securities Exchange in 2003 the Company's head office, manufacturing and research facilities are located in Sydney, Australia.

The Company's development pipeline is centred on its expertise in amine oxidase chemistry and includes a series of Lysyl Oxidase Inhibitors that will enter clinical development in 2017 targeting fibrotic diseases of the heart, kidney, liver and lung. In May 2015, Boehringer Ingelheim acquired the Pharmaxis investigational drug PXS-4728A, a potent inhibitor of Semicarbazide-Sensitive Amine Oxidase (SSAO), to develop it for the treatment of the liver-related condition Non-alcoholic Steatohepatitis (NASH) and other inflammatory diseases.

Pharmaxis manufacture and exports its approved products from a purpose built manufacturing facility in Sydney.

- Bronchitol®, an inhaled dry powder for the treatment of cystic fibrosis, has been the subject of two large scale global clinical trials conducted by Pharmaxis. The product is marketed in Europe, Russia and Australia and a third large multicentre clinical trial aiming to secure approval in the United States was reported in June 2017.
- Aridol® a lung function test for asthma was also the subject of a clinical trial program run by Pharmaxis and is approved and sold in Europe, Australia and Asia.

The management and Board of Directors have significant relevant experience in drug discovery and pharmaceutical marketing.

New drug development

During the current year the Company made substantial progress in its drug development pipeline including:

Anti-inflammatory drug PXS-4728A

This drug was sold to Boehringer Ingelheim in May 2015. Under the terms of our agreement Boehringer has total responsibility for the development program and is required to make milestone payments to Pharmaxis as PXS-4728A progresses towards approval as well as other sales related payments post approval. Boehringer has recently reported that:

- the phase 2 trial in NASH has commenced recruiting subjects and the first dose will be administered in the third quarter of 2017, triggering a milestone payment to Pharmaxis of €18 million (approximately A$26 million).
- it has opened an IND in the US and Fast Track Designation has been granted by the FDA, allowing for more frequent interactions with the FDA to discuss study design and further clinical development towards registration.
- it is developing PXS-4728A for a second indication which is scheduled to commence a phase 2 study in the second half of calendar 2017. The disease indication remains confidential until the commencement of the trial. Under our agreement with Boehringer Pharmaxis will receive €10 million (approximately A$14 million) on commencement of a phase 2 study in a second indication. Total milestones through to approval for a second indication are the same as for the first indication (€195 million for each indication) but weighted more towards the approval than the development milestones.

Anti-fibrotic program targeting the LOXL2 enzyme

The Pharmaxis drug discovery group has developed a small number of selective inhibitors to the lysyl oxidase type 2 enzyme (LOXL2) utilising the amine oxidase platform that delivered PXS-4728A. LOXL2 is important in NASH, kidney fibrosis, the fatal lung disease idiopathic pulmonary fibrosis (IPF) and also plays a role in some solid cancers. During the year the Company completed lead optimisation work and preclinical toxicology studies for two compounds. The Company is now working with its collaborator, UK biotechnology company Synairgen plc (LSE: SNG) to select which drug candidates to take forward into the clinic for IPF and/or NASH. Once final toxicology study reports are available the program will be in a position to commence phase 1 studies in the second half of calendar 2017.

As the LOXL2 program approaches the clinic, Pharmaxis and Synairgen continue to engage with a number of large pharma companies at the twice yearly US industry conferences and individually. The role of LOXL2 in fibrotic diseases such as NASH and pulmonary fibrosis is of significant interest to many of the big companies who are keen to understand our scientific progress and timing of planned partnering.

Other research initiatives

Other earlier stage drug development programs involving lesser levels of investment include:

- The LOX inhibitor program which has potential anti-fibrotic application in scarring and Pharmaxis is working together with the University of Western Australia, the Fiona Wood Foundation and the Royal Perth Hospital Burns Unit. The research is currently focused on formulation and is scheduled to commence formal preclinical toxicology studies in the second half of 2017. Research work is also exploring other severe fibrotic indications where the Company's LOX inhibitor may also have application.
- The SSAO/MPO program which is developing a dual inhibitor with potential anti-inflammatory application in respiratory and cardiovascular disease. The research is currently focused on fully profiling the drugs under development and identifying the appropriate indications to pursue.
- The SSAO/MAOB inhibitor program has potential anti-inflammatory application in a number of indications. Further investment in this project has been postponed whilst awaiting the results from a number of academic collaborators focusing on identifying the appropriate indication.

- The Company has research collaborations with a number of leading universities and academics assessing the above programs as well as the utility of its LOXL2 inhibitors in oral cancer, bone marrow myelofibrosis, NASH and wound scarring.

During the year the Company added two new members to its scientific advisory board - Professor Andrew Boyle who is Head of the Cardiovascular Medicine at the University of Newcastle, and Professor Carol Pollock who is Chair of the NSW Cardiovascular Research Network and Chairs the Research Advisory Committee of the Australian and New Zealand Society of Nephrology. Full details of the Company's scientific advisory board are available on the Pharmaxis website.

Approved products – Bronchitol and Aridol

Bronchitol for cystic fibrosis

Bronchitol is an inhaled dry powder for the treatment of cystic fibrosis. The product is approved and marketed in Europe, Russia and Australia and a third large multicentre clinical trial is aiming to secure approval in the United States reported in June 2017.

- Pharmaxis has partnered its work on Bronchitol for the United States with Chiesi Group (Chiesi), a global pharmaceutical company headquartered in Parma, Italy. Chiesi USA, the American affiliate of Chiesi Group is responsible for completing and filing the updated Bronchitol NDA with the FDA. In June 2017, Pharmaxis announced that its international Phase 3 trial of Bronchitol (mannitol) in adults with cystic fibrosis (CF) had met its primary endpoint. The study demonstrated the superiority of Bronchitol versus the comparator on the primary endpoint (FEV1 change from baseline over 26 week treatment period), with an effect of 54 ml (p=0.020). The study had recruited adult CF patients with all grades of disease that were already on the best standard of care. The improvement in lung function of 2.2% (p=0.025) was less than that seen in the adult CF population in previously reported phase 3 studies. No statistically significant differences between treatment groups in secondary endpoints were recorded, although a trend was observed in favour of Bronchitol for another lung function parameter (FVC). Bronchitol had a good safety profile with similar rates of adverse events seen compared to control. Pharmaxis and its US partner Chiesi believe the results are sufficient to underpin a resubmission of the Bronchitol New Drug Application to the FDA which is expected to occur in 2018. Chiesi funded US$22 million of the clinical trial, the total cost of which is approximately US$26 million. Under the terms of the agreement Chiesi has responsibility for completing the New Drug Application with the FDA and the commercialisation of Bronchitol in the United States. The Company continues to work closely with Chiesi on all aspects of securing US marketing approval for Bronchitol.
- In the EU, Pharmaxis has appointed Chiesi as its exclusive distributor for the markets of the UK and Germany. In May 2017 Chiesi was also appointed exclusive distributor for the Italian market and expects to launch Bronchitol in the second half of calendar 2017. During the 2016 financial year Chiesi built up its initial inventory levels of Bronchitol and in the 2017 financial year allowed these levels to reduce, resulting in decreased sales recorded by Pharmaxis in 2017. The Company expects consistent inventory levels to be now held in the distribution channel and therefore annual sales to show less fluctuations. Unit sales of Bronchitol by Chiesi in the UK and Germany for the 2017 financial year were 3% higher than 2016.
- In September 2017, Pharmaxis received marketing approval of Bronchitol in Russia for the treatment of both paediatric and adult CF patients. Russia is the largest market accessed to date for Bronchitol. The announcement carried extra significance because Bronchitol was the first medicine to be processed under new Russian laws to provide patients access to innovative medicines. The new orphan drug legislation was announced by the Russian Ministry of Health in January 2016, and Bronchitol was designated as an orphan drug the following month. There are approximately 7,400 CF patients on the Russian Cystic Fibrosis Registry, but it is estimated there are between 3,000 and 6,000 CF patients living in rural regions not currently included on the registry. Last year the Russian market for CF drugs to deal with mucus clearance was approximately US$29 million. The first Russian shipment ($643,000) was delivered during the first quarter of calendar 2017. A decision by Russian regulatory authorities in relation to the reimbursement of Bronchitol is expected in the second half of calendar 2017.

Aridol

Aridol is designed to identify twitchy or hyper-responsive airways and to assist in diagnosing and managing asthma. It is a simple-to-use airways inflammation test administered as a dry powder in a hand-held inhaler.

Aridol is approved and sold in Australia, South Korea and a number of European countries.

Sales of Aridol kits for the 2017 year increased 17 percent for Australia, 7 percent for Europe, and by 13 percent for South Korea over 2016.

5.2 Results of Operations

Sales

Sales for the year ended 30 June 2017 of $4.8 million (2016: $6.1 million) included Bronchitol sales of $2.8 million (2016: $4.3 million) and Aridol sales of $2.0 million (2016: $1.8 million). Aridol sales grew in all three regions – Europe, Australia and Asia.

Bronchitol sales by region are as follows:	**2017**	2016
	$'000	$'000
Australia	**736**	693
Western Europe	**1,128**	3,561
Eastern Europe	**278**	48
Russia	**643**	-
	2,785	4,302

Approximately 90% of sales in Western Europe are through our exclusive distributor Chiesi that took over the territories of UK and Germany in June 2015. Chiesi built inventory levels in the 2016 financial year such that lower levels of purchases from Pharmaxis were required in the 2017 financial year. Going forward the Company expects a more normalized level of sales to Chiesi for the UK and Germany at about twice the sales of 2017. Sales to Eastern Europe were exclusively to our Turkish distributor in 2017 but other countries in the region are expected to launch in the 2018 financial year. Sales to the Company's Russian distributor commenced in the 2017 financial year. A reimbursement decision is expected to be received in the 2018 financial year.

Other revenue

Other revenue for the year ended 30 June 2017 was $9.3 million (2016: $9.4 million) and includes:

(a) Clinical trial cost reimbursement - $8.4 million (2016: $8.2 million). These amounts represent clinical trial cost reimbursements by our US partner Chiesi in relation to the recently reported phase 3 clinical trial of Bronchitol. Under our agreement, Chiesi was responsible for the first US$22 million of costs. The revenue recognised each period represents clinical trial costs invoiced to Chiesi reduced by a revenue deferral designed to recognise Pharmaxis' expected funding requirement at the end of the trial (approximately US$ 4 million) over the term of the trial. The total deferred revenue at 30 June 2017 is $1.1 million (2016: $3.7 million).

(b) Interest income - $0.7 million (2016: $1.2 million). The decrease in interest income was driven by a lower average balance of cash and cash equivalents available for investment during the period.

Other income

Other income for the year ended 30 June 2017 was $3.9 million (2016: $3.5 million). The components to this income group include:

(a) R&D tax incentive credits - $3.2 million (2016: $2.1 million). The R&D Tax Incentive scheme in Australia enables a 43.5 per cent refundable tax offset to eligible entities with an aggregated turnover of less than $20 million per annum.

(b) Drug discovery service fee - $328,000 (2016: $925,000). This item represents amounts charged to Synairgen under our research collaboration agreement, predominantly related to the provision of chemistry services.

Employee costs

Employee related expenses were $11.1 million in 2017 compared to $10.5 million in 2016, an increase of 5.7%. Employee costs include share based payments (non-cash) totaling $0.9 million (2016: $0.9 million).

The Company employed 62 FTEs at 30 June 2017 of which approximately 20% were engaged in new drug discovery, 8% in corporate, 8% in clinical services, 52% in the manufacturing of Bronchitol and Aridol, and the remainder in sales and medical/regulatory support of Bronchitol and Aridol.

Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were $1.9 million in 2017 compared to $2.1 million in 2016, a decrease of 6.5%.

Clinical trials

Clinical trials expenses were $10.0 million in 2017 compared to $12.0 million in 2016. The clinical trials expenses relate to the external costs incurred and are predominately driven by fees paid to the clinical research organisations contracted to manage the trials in multiple jurisdictions, and costs paid to participating site investigators. Clinical trial costs in 2017 relate to the phase 3 clinical trial in cystic fibrosis which were reimbursed by Chiesi in the amount of US$22 million. Costs in 2016 were predominantly in relation to the phase 3 cystic fibrosis trial and also included $645,000 in relation to a phase 2 paediatric trial conducted in Europe that completed and reported in the 2016 year and a $109,000 in relation to a phase 1 trial for drug candidate PXS-4728A which was substantially completed in the 2015 financial year.

Drug development

Drug development expenses were $5.1 million in 2017 compared to $2.9 million in 2016. The drug development expenses relate to the external costs incurred in running the Company's research programs (and excludes any allocation of lease and utilities), selecting and then progressing drug candidates through the pre-clinical development path. In both the 2017 and 2016 financial years the predominant drug discovery expense related to the Company's LOXL2 program, and in 2017 the Company increased expenditure in relation to its LOX and SSAO/MPO programs. The LOXL2 program is being conducted in collaboration with Synairgen plc.

Sales, marketing & distribution

Sales & marketing expenses are primarily focused on external costs incurred in selling Bronchitol globally, in support of the Company's exclusive distributors. Limited resources are directed at the sale of Aridol. Sales & marketing expenses for the current year were $1.1 million compared to $1.1 million in 2016. The expenses in both years included costs associated in applying for pricing reimbursements.

Safety, medical and regulatory affairs

Safety, medical and regulatory affairs expenses relate to external costs directed at monitoring and reporting product safety to regulatory agencies, reviewing material provided to clinicians and patients by the Company and obtaining and maintaining product approvals. This category of expenses was $1.4 million in 2017 and $1.7 million in 2016. Included in these expenses are costs relating to satisfying the requirement of the Company's EU Bronchitol approval to undertake a prospective observational safety study of Bronchitol in adult cystic fibrosis patients over a 5 year period. The costs of this study in 2017 were $0.54 million (2016: $0.48 million). This study will complete in the first quarter of the 2018 financial year.

Manufacturing purchases

Manufacturing purchases were $1.3 million in 2017 compared to $1.9 million in 2016. This group of costs includes raw material and consumable purchases, external costs associated with running the production and quality control processes and repair & maintenance costs associated with manufacturing equipment and our manufacturing facility. In addition to manufacture and supply of commercial product, purchases also related to the manufacture of clinical trial material for the Phase 3 clinical trial in cystic fibrosis which completed dosing subjects during the 2017 financial year.

Other

Other expenses were $0.4 million in 2017 compared to $0.4 million in 2016. This category encompasses royalties, corporate travel related costs, shared office administration costs, and other costs as well as the net transfer of manufacturing labour and overhead to and/or from inventory.

Depreciation & amortisation

Depreciation and amortisation expense was $3.1 million in 2017 compared to $3.0 million in 2016.

Foreign currency exchange gains and losses

Foreign currency exchange gains and losses includes an unrealised gain of $804,000 (2016: $911,000 loss) in relation to the financing agreement with NovaQuest.

Finance expenses

Finance expenses were $0.6 million in 2017 compared to a credit totalling $2.5 million in 2016. There are two components to this group of expenses.

(a) Finance charges associated with the capitalised finance lease of our corporate manufacturing facility at French's Forest, Sydney totalling $0.6 million (2016: $0.7 million).

(b) In 2016 a finance expense related to the NovaQuest financing agreement. The Company revised the assumptions on which the financing liability is calculated including the quantum and timing of forecast sales on which future payments are expected to be made and expected foreign currency rates used to forecast sales. As a result the liability was reduced by A$3.1 million with a corresponding reduction in finance expense.

Impairment expenses

There were no restructure and impairment expenses in 2017. In 2016, $0.2 million related to the write down of several patent families following a re-assessment of their recoverability.

Income tax expense

Income tax expense in 2016 relates to tax on the income generated by the group's subsidiaries which are reimbursed for their expenditures on a cost plus basis, upon which tax is payable.

Profit/(Loss)

The Company recorded a loss of $18.3 million in 2017 compared to a loss in 2016 of $16.5 million.

Basic and diluted net profit / (loss) per share

Basic and diluted net loss per share was $0.058 in 2017 compared to a net loss per share of $0.052 in 2016.

5.3 Liquidity and Capital Resources

As at 30 June 2017 Pharmaxis had cash and cash equivalents of $21.5 million as compared to $39.2 million at 30 June 2016. The components of the Company's cash flow during 2016 were as follows:

- Net cash outflows from operating activities of $15.3 million. This consisted of a net loss for the year of $18.1 million, which included $3.1 million of non-cash depreciation and amortisation, net non-cash finance & foreign exchange charges of $0.2 million, non-cash stock option charges of $0.9 million, and other negative working capital movements of $0.8 million.
- Net cash outflows from investing activities were $723,000 which included new patent applications in relation to the LOXL2 program of $104,000, and equipment and software that predominantly related to new analytical equipment for drug discovery.
- Net cash outflows from financing activities were $1.7 million related to facility finance lease repayments of $1.5 million and financing agreement repayments of $0.2 million.

The Company's cash resources will be increased when the Boehringer Ingelheim milestone of €18 million (approximately A$26m) is received in the second half of calendar 2017, as discussed above.

6 FINANCIAL STATEMENTS

This financial report covers Pharmaxis Ltd as the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial report is presented in the Australian currency.

Pharmaxis Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, NSW Australia 2086

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report which is not part of this financial report.

The financial report was authorised for issue by the directors on 10 August 2017. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. Press releases, financial reports and other information are available at our website: www.pharmaxis.com.au.

Pharmaxis Ltd

Consolidated income statement

For the year ended 30 June 2017

	Notes	**2017** **$'000**	2016 $'000
Revenue from continuing operations			
Revenue from sale of goods	3a	**4,823**	6,135
Other revenue	3a	**9,327**	9,413
Other income	3b	**3,851**	3,472
		18,001	19,020
Other expenses from ordinary activities	4		
Employee costs		**(11,063)**	(10,529)
Administration & corporate		**(1,947)**	(2,082)
Rent, occupancy & utilities		**(1,148)**	(1,296)
Clinical trials		**(10,017)**	(11,955)
Drug development		**(5,068)**	(2,910)
Sales, marketing & distribution		**(1,061)**	(1,101)
Safety, medical and regulatory affairs		**(1,379)**	(1,707)
Manufacturing purchases		**(1,326)**	(1,928)
Other		**(437)**	(382)
Depreciation & amortisation		**(3,059)**	(3,028)
Foreign exchange gains & losses		**781**	(843)
Finance costs		**(623)**	2,459
Impairment expenses		**–**	(174)
		(36,347)	(35,476)
Loss before income tax		**(18,346)**	(16,456)
Income tax expense	5	**–**	(7)
Loss for the year		**(18,346)**	(16,463)
Earnings per share:		**Cents**	Cents
Basic loss per share	28	**(5.8)**	(5.2)
Diluted loss per share	28	**(5.8)**	(5.2)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the year ended 30 June 2017

	2017	2016
	$'000	$'000
Loss for the financial year	**(18,346)**	(16,463)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**–**	153
Other comprehensive income for the year, net of tax	**–**	153
Total comprehensive loss for the year	**(18,346)**	(16,310)
Total comprehensive loss for the year is attributable to:		
Owners of Pharmaxis Ltd	**(18,346)**	(16,310)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated balance sheet

As at 30 June 2017

	Notes	**2017** **$'000**	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**21,504**	39,209
Trade and other receivables	7	**4,569**	4,995
Inventories	8	**2,570**	2,213
Total current assets		**28,643**	46,417
Non-current assets			
Receivables	9	**1,428**	1,297
Property, plant and equipment	10	**14,860**	17,793
Intangible assets	11	**503**	146
Total non-current assets		**16,791**	19,236
Total assets		**45,434**	65,653
LIABILITIES			
Current liabilities			
Trade and other payables	12	**6,818**	5,022
Borrowings	13	**981**	864
Other liabilities	14	**2,040**	4,588
Provisions	15	**682**	538
Total current liabilities		**10,521**	11,012
Non-current liabilities			
Borrowings	16	**8,270**	9,258
Other liabilities	17	**22,862**	24,190
Provisions	18	**260**	267
Total non-current liabilities		**31,392**	33,715
Total liabilities		**41,913**	44,727
Net assets		**3,521**	20,926
EQUITY			
Contributed equity	19	**344,623**	344,623
Reserves	20(a)	**19,512**	18,571
Accumulated losses	20(b)	**(360,614)**	(342,268)
Total equity		**3,521**	20,926

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Notes	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total $'000
Balance at 30 June 2015		344,623	17,503	(325,805)	36,321
Profit for the year		–	–	(16,463)	(16,463)
Other comprehensive income		–	153	–	153
Total comprehensive income / (loss) for the year		–	153	(16,463)	(16,310)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	–	–	–	–
Employee share options	20(a)	–	915	–	915
		–	915	–	915
Balance at 30 June 2016		**344,623**	**18,571**	**(342,268)**	**20,926**
Loss for the year		–	–	(18,346)	(18,346)
Other comprehensive income		–	–	–	–
Total comprehensive loss for the year		–	–	(18,346)	(18,346)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	–	–	–	–
Employee share options	20(a)	–	941	–	941
		–	941	–	941
Balance at 30 June 2017		**344,623**	**19,512**	**(360,614)**	**3,521**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated statement of cash flows

For the year ended 30 June 2017

	Notes	**2017** **$'000**	2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**13,396**	18,854
Payments to suppliers and employees (inclusive of goods and services tax)		**(31,521)**	(32,034)
		(18,125)	(13,180)
Grant receipts from government		**2,160**	–
Interest received		**703**	1,213
Income tax paid		**–**	(22)
Net cash outflow from operating activities	27	**(15,262)**	(11,989)
Cash flows from investing activities			
Payments for property, plant and equipment		**(313)**	(1,372)
Proceeds from disposal of plant and equipment		**–**	2
Payments for intangible assets		**(410)**	(11)
Net cash outflow from investing activities		**(723)**	(1,381)
Cash flows from financing activities			
Finance lease payments		**(1,494)**	(1,447)
Financing agreement payments		**(227)**	(267)
Net cash outflow from financing activities		**(1,721)**	(1,714)
Net decrease in cash and cash equivalents		**(17,706)**	(15,084)
Cash and cash equivalents at the beginning of the financial year		**39,209**	54,138
Effects of exchange rate changes on cash and cash equivalents		**1**	155
Cash and cash equivalents at the end of the financial year	6	**21,504**	39,209

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board, and the *Corporations Act 2001.* Pharmaxis Ltd is a for profit entity for the purposes of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Pharmaxis Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Clinical trial cost reimbursements – The group recognises revenue in relation to its partnering agreement of Bronchitol in the US for cystic fibrosis with Chiesi Farmaceutici SpA. The revenue recognised in the income statement related to this agreement requires a level of judgement in forecasting the overall costs required to complete the associated clinical trial.

(ii) Finance liabilities - The group has recognised a financial liability in relation to an agreement with NovaQuest Pharma Opportunities Fund III, LP in accordance with the accounting policy stated in note 1 r (ii). The finance cost recognised in the income statement related to this financial liability has been calculated by taking into account sales forecasts in territories covered by the agreement, timing of launch into these territories and applicable exchange rates. Significant judgement has been applied in deriving these assumptions. Where the outcomes of these assumptions are different from the amounts that were initially recorded, such differences will impact the financial liabilities and finance costs in the period in which such determination is made.

(iii) Income taxes - The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes and other tax related balances. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities/receipts based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pharmaxis Ltd (''company'' or ''parent entity'') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Pharmaxis Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group's senior management committee.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Pharmaxis Ltd's functional and presentation currency.

1. Summary of significant accounting policies (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. All other foreign exchange gains and losses are presented in the income statement on a net basis within other expenses.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of applicable rebates, returns and trade allowances. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Sales revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recorded when goods have been dispatched and the risk and rewards have passed to the customer.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Research & Development tax incentive income

Research & Development tax incentive income is recognised when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured.

(iv) Sale of drug candidates

Milestone payments received pursuant to a Drug Candidate Asset and Purchase agreement with no further performance obligations on the part of the company are recognised as income when they are receivable under the terms of the contract and their receipt is probable.

(v) Clinical trial cost reimbursements

Clinical trial cost reimbursement revenue is recognised in accordance with the stage of completion of the associated clinical trial and when the consideration can be reliably measured and the receipt is probable.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. When the company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the company recognises the income only when the relevant expenditure has been incurred.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of plant and equipment are included in liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

1. Summary of significant accounting policies (continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income, or directly in equity, respectively.

The Group has unused tax losses of $326 million at 30 June 2017 as described in note 5.

(h) Leases

Leases of property where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 23). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the principal repayment and the finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property acquired under the finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Any lease incentive received is recognised in the income statement on a straight-line basis over the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

1. Summary of significant accounting policies (continued)

(j) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes cash on hand, deposits at call, term deposits and bank accepted commercial bills, which are subject to an insignificant risk of changes in value.

Bank accepted commercial bills are short-term deposits held with banks with maturities of three months or less, which are acquired at a discount to their face value. The bills are carried at cost plus a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest received.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement between 30 – 120 days from date of invoice. They are presented as current assets unless collection is not expected for more than twelve months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses in the income statement.

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	5 – 15 years
Computer equipment	4 years
Leased building and improvements	15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1. Summary of significant accounting policies (continued)

(o) Intangible assets

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives, which vary from 5 to 20 years.

(ii) Trademarks

Trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks over their estimated useful lives, which are assessed as 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

(iv) Software

Software licenses are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over their estimated useful lives, which vary from three to five years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition and receipt of a valid invoice. Trade and other payables are presented as current liabilities unless payment is not due within twelve months from the reporting date.

(q) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long term obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

Contributions to defined contribution funds are recognised as an expense as they become payable.

(iv) Equity-based payments

Equity-based compensation benefits are provided to employees via the Pharmaxis Employee Equity Plans. Information relating to these schemes is set out in note 30. The fair value of equity granted under the various plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options / performance rights.

For options the fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. For performance rights the fair value at grant date is taken to be the closing share price on the date of grant.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, performance targets). Non-market vesting conditions are included in assumptions about the number of options / performance rights that are expected to become exercisable. At each balance sheet date, the Company revises its estimate of the number of options / performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

1. Summary of significant accounting policies (continued)

(vi) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(r) Other liabilities

(i) Deferred lease incentive

The deferred lease incentive relates to a cash incentive received pursuant to a lease agreement. The deferred incentive is amortised to the income statement over the lease term of 15 years.

(ii) Financing agreement

The company recognised a financial liability which may be contingent in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the group and its counter party.

The group does not have an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) as it does not control the final outcome. A transfer of economic benefits as a result of a past event (the issue of the financial liability) cannot be avoided depending on the outcome of the future event.

The financial liability is initially recognised at fair value of the estimated cash flows that are expected to occur over the expected life of the liability, net of transaction costs incurred. The financial liability is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss, in finance costs, over the period of the financial liability using the effective interest method. When the estimated cash flows are revised, the carrying amount of the liability is recalculated by computing the present value of the revised estimated future cash flows at the original effective interest rate.

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options (net of recognised tax benefits) are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing net result after income tax attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

1. Summary of significant accounting policies (continued)

(v) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(w) Parent entity financial information

The financial information for the parent entity, Pharmaxis Ltd, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements. Investments in subsidiaries are accounted for at cost in the financial statements of Pharmaxis Ltd. Dividends received are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods.

The Group has assessed the impact of the new lease standard (AASB 16) to have a $2.3m increase in property, plant and equipment and corresponding liability in finance lease when adopted by the Group for the financial year commencing 1 July 2019.

The Group's current revenue recognition treatment as noted in 1.(e) will not be materially impacted by the new revenue standard (AASB 15). The new standard will be adopted by the Group for the financial year commencing 1 July 2018.

The Group will not be impacted by the transition to the new financial instruments standard (AASB 9) which is to be adopted from 1 July 2017.

2. Segment information

(a) Description of segments

The group's senior management committee, considers the business from a product development stage perspective and has identified two reportable segments:

1. Bronchitol and Aridol business – covering the ongoing clinical development, manufacture and sale of the Bronchitol and Aridol globally. The committee monitors the performance of these two products collectively.
2. New Drug Development – this segment encompasses the drug discovery and early stage clinical development of the group's new drug candidates.

The corporate head office related costs of the group's business are not regarded as a segment but are disclosed below.

(b) Segment information provided to the senior management committee

The segment information provided to the senior management committee for the reportable segments for the year ended 30 June 2017 is as follows:

2. Segment information (continued)

	Bronchitol & Aridol	New Drug Development	Corporate	Total
	$'000	$'000	$'000	$'000
2017				
Segment Revenue				
Sales revenue	4,823	–	–	4,823
Other revenue	8,624	–	–	8,624
Other income	97	3,417	337	3,851
	13,544	3,417	337	17,298
Expenses from ordinary activities				
Employee costs	(6,037)	(2,026)	(2,058)	(10,121)
Administration & corporate	(412)	(137)	(1,398)	(1,947)
Rent, occupancy & utilities	(483)	(74)	(591)	(1,148)
Clinical trials [(1)]	(10,017)	–	–	(10,017)
Drug development	–	(5,068)	–	(5,068)
Sales, marketing & distribution	(1,061)	–	–	(1,061)
Safety, medical and regulatory affairs	(1,379)	–	–	(1,379)
Manufacturing purchases	(1,326)	–	–	(1,326)
Other	71	(226)	(306)	(461)
	(20,644)	(7,531)	(4,353)	(32,528)
Adjusted EBITDA	(7,100)	(4,114)	(4,017)	(15,230)
2016				
Segment Revenue				
Sales revenue	6,135	–	–	6,135
Other revenue	8,200	–	–	8,200
Other income	575	2,580	317	3,472
	14,910	2,580	317	17,807
Expenses from ordinary activities				
Employee costs	(5,560)	(1,782)	(2,116)	(9,458)
Administration & corporate	(498)	(139)	(1,342)	(1,979)
Rent, occupancy & utilities	(607)	(78)	(611)	(1,296)
Clinical trials [(1)]	(11,846)	(109)	–	(11,955)
Drug development	–	(2,910)	–	(2,910)
Sales, marketing & distribution	(1,101)	–	–	(1,101)
Safety, medical and regulatory affairs	(1,707)	–	–	(1,707)
Manufacturing purchases	(1,928)	–	–	(1,928)
Other	109	(187)	(236)	(314)
	(23,138)	(5,205)	(4,305)	(32,648)
Adjusted EBITDA	(8,228)	(2,625)	(3,988)	(14,841)

2. Segment information (continued)

(1) The clinical trial costs for the year ending 30 June 2017 are split by the following projects in Bronchitol and Aridol: CF303 $10.0m (2016: $11.2m), CF204 $0.1m (2016: $0.6m); and Drug Discovery: PXS-4728A $Nil (2016: $0.1m).

The senior management committee uses the adjusted EBITDA as a measure to assess performance of the segments. This excludes the effects of non-recurring expenditure such as redundancy costs, partnering and financing agreement legal expenses, business development expenses and patent impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments.

A reconciliation of adjusted EBITDA to operating loss before income tax is provided as follows:

	2017	2016
	$'000	$'000
Adjusted EBITDA	**(15,230)**	(14,841)
Interest revenue	**703**	1,213
Finance costs		
Financing agreement credits [(1)]	**-**	3,135
Finance lease charges	**(623)**	(676)
Depreciation and amortisation expense	**(3,059)**	(3,028)
Impairment of patents and other assets	**-**	(174)
Redundancy expenses	**-**	(156)
Non recurring legal and business development expenses	**-**	(103)
Share-based payment expenses	**(941)**	(915)
Unrealised losses (gains) on financial instruments	**804**	(911)
(Loss) / profit before income tax	**(18,346)**	(16,456)

(1) The Company reviewed and amended the estimated cash flows of the NovaQuest liability as per the financing agreement accounting policy note 1 (a) (ii), as a result the change in the NovaQuest liability has been reflected in the income statement for the year ended 30 June 2016.

3a. Revenue

	2017	2016
	$'000	$'000
Sales revenue		
Sale of goods	**4,823**	6,135
Other revenue		
Clinical trial cost reimbursements	**8,463**	8,200
Interest	**703**	1,213
Other	**161**	–
	9,327	9,413

3b. Other income

	2017	2016
	$'000	$'000
R&D Tax Incentive income	**3,160**	2,100
Drug Discovery service fees	**328**	925
Other	**363**	447
	3,851	3,472

4. Expenses

Profit / (loss) before income tax includes the following specific expenses:	**2017** **$'000**	**2016** $'000
Depreciation (note 10)		
Plant and equipment	**1,468**	1,464
Computer equipment	**64**	71
Leased building and improvements	**1,712**	1,676
Total depreciation	**3,244**	3,211
Amortisation & impairment (note 11)		
Patents	**17**	201
Trademarks	**6**	5
Software	**30**	22
Total amortisation	**53**	228
Amortisation of deferred lease incentive	**(239)**	(239)
Impairment (recovery) losses – financial assets		
Trade receivables	**(7)**	75
Net loss on disposal of plant and equipment	**1**	–
Rental expense relating to operating leases	**675**	745
Net foreign exchange (gains) losses	**(781)**	843
Employee salaries and benefits expense		
Defined contribution superannuation	**729**	613
Share-based payment expenses	**942**	915
Contractor benefits expenses	**970**	655
Other employee benefits expenses	**8,422**	8,346

5. Income tax expense

(a) Numerical reconciliation of prima facie tax expense to actual income tax expense	**2017 $'000**	**2016** $'000
(Loss) / profit before income tax expense	**(18,346)**	(16,456)
Tax at the Australian tax rate 30% (2016:30%)	**(5,504)**	(4,937)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**283**	275
Government research tax incentives	**948**	807
Sundry items	**225**	57
Total	**(4,048)**	(3,798)
Deferred tax benefits (utilised) / not recognised	**4,048**	3,805
Income tax expense	**–**	7

This represents current income tax expense.

(b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	**325,536**	310,785
Potential tax benefit at 30%	**97,661**	93,236

All unused tax losses were incurred by the parent entity.

6. Current assets – Cash and cash equivalents

	2017 $'000	**2016** $'000
Cash at bank and in hand	**525**	474
Deposits at call	**4,500**	3,553
Term deposits	**16,479**	35,182
	21,504	39,209

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 29. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents above.

7. Current assets – Trade and other receivables

	2017 $'000	**2016** $'000
Trade receivables	**1,281**	2,781
Provision for impairment of receivables (note (b))	**(19)**	(128)
	1,262	2,653
R&D Tax Incentive receivable	**3,100**	2,100
Prepayments (note (c))	**134**	146
Tax related receivables	**73**	96
Other receivables (note (d))	**–**	–
	4,569	4,995

7. Current assets – Trade and other receivables (continued)

(a) Past due but not impaired

As of 30 June 2017, trade receivables of $206,241 (2016: $90,666) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2017	2016
	$'000	$'000
Up to 1 month	**152**	84
1 to 2 months	**-**	2
Over 2 months	**54**	5
	206	91

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

(b) Impaired trade receivables

As of 30 June 2017 trade receivables of $19,014 (2016: $127,774) were impaired.

(c) Prepayments

Prepayments relate to insurance premiums paid in advance.

(d) Other receivables

Other receivables represented cash held at bank to cover bank guarantee facilities related to corporate credit card and local payment clearing house.

(e) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 29.

(f) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 29 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8. Current assets – Inventories

	2017	2016
	$'000	$'000
Raw materials - at cost	**763**	879
Work-in-progress - at cost	**432**	349
Finished goods - at cost	**1,375**	985
	2,570	2,213

9. Non-current assets – Receivables

	2017	2016
	$'000	$'000
Other receivables (a)	**1,309**	1,297
Prepayments	**119**	-
	1,428	1,297

(a) Other receivables

Other receivables primarily represents cash held at bank to cover bank guarantee facilities related to finance and operating lease commitments.

(b) Prepayments

Prepayments represent an upfront contractual advance to a third party.

(c) Fair value

The carrying amount of the non-current receivables approximates their fair value.

9. Non-current assets – Receivables (continued)

(d) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 29.

10. Non-current assets – Property, plant and equipment

	Plant and equipment	Computer equipment	Leased building and improvements	Total
	$'000	**$'000**	**$'000**	**$'000**
At 1 July 2015				
Cost	14,695	679	22,843	38,217
Accumulated depreciation and impairment	(8,467)	(603)	(9,513)	(18,583)
Net book amount	6,228	76	13,330	19,634
Year ended 30 June 2016				
Opening net book amount	6,228	76	13,330	19,634
Exchange differences	1,045	154	173	1,372
Additions	–	(2)	–	(2)
Disposals	(1,464)	(71)	(1,676)	(3,211)
Depreciation charge	5,809	157	11,827	17,793
Closing net book amount	14,695	679	22,843	38,217
At 30 June 2016				
Cost	15,744	814	23,011	39,569
Accumulated depreciation and impairment	(9,935)	(657)	(11,184)	(21,776)
Net book amount	5,809	157	11,827	17,793
Year ended 30 June 2017				
Opening net book amount	5,809	157	11,827	17,793
Additions	227	78	8	313
Disposals	–	(2)	–	(2)
Depreciation charge	(1,468)	(64)	(1,712)	(3,244)
Closing net book amount	4,568	169	10,123	14,860
At 30 June 2017				
Cost	15,971	890	23,019	39,880
Accumulated depreciation and impairment	(11,403)	(721)	(12,896)	(25,020)
Net book amount	4,568	169	10,123	14,860

(a) Leased assets

Leased building and improvements includes the following amounts where the Group is a lessee under a finance lease:

	2017	2016
	$'000	$'000
Cost	**13,916**	13,916
Accumulated amortisation	**(7,548)**	(6,620)
Net book amount	**6,368**	7,296

11. Non-current assets – Intangible assets

	Patents $'000	Trademarks $'000	Software $'000	Total $'000
At 1 July 2015				
Cost	19,027	111	591	19,729
Accumulated amortisation and impairment	(18,772)	(46)	(548)	(19,366)
Net book amount	255	65	43	363
Year ended 30 June 2016				
Opening net book amount	255	65	43	363
Additions	–	–	11	11
Disposals	–	–	–	–
Amortisation charge	(27)	(5)	(22)	(54)
Impairment charge	(174)	–	–	(174)
Closing net book amount	54	60	32	146
At 30 June 2016				
Cost	19,027	111	602	19,740
Accumulated amortisation and impairment	(18,973)	(51)	(570)	(19,595)
Net book amount	54	60	32	146
Year ended 30 June 2017				
Opening net book amount	54	60	32	146
Additions	104	–	306	410
Disposals	–	–	–	–
Amortisation charge	(17)	(6)	(30)	(53)
Impairment charge	–	–	–	–
Closing net book amount	141	54	308	503
At 30 June 2017				
Cost	19,131	111	908	20,150
Accumulated amortisation and impairment	(18,990)	(57)	(600)	(19,647)
Net book amount	141	54	308	503

12. Current liabilities – Trade and other payables

	2017 $'000	2016 $'000
Trade payables	**3,324**	2,196
Other payables (note (a))	**3,494**	2,826
	6,818	5,022

(a) Other payables

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement.

(b) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 29.

13. Current liabilities – Borrowings

	2017	2016
	$'000	$'000
Secured		
Lease liabilities (note 23)	**981**	864

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 16.

(b) Risk exposure

Information about the Group's exposure to risks arising from current and non-current borrowings is provided in note 29.

14. Current liabilities – Other liabilities

	2017	2016
	$'000	$'000
Deferred lease incentive (a)	**239**	239
Financing agreement (a)	**658**	601
Deferred clinical trial cost reimbursements (b)	**1,144**	3,748
	2,040	4,588

(a) Information about the deferred lease incentive and financing agreement provided in note 17.

(b) Pursuant to the company's agreement with Chiesi Farmaceutici SpA (Chiesi) for the commercialisation of Bronchitol in the US for cystic fibrosis, Chiesi is responsible for funding up to a maximum of US$22 million of the associated costs from the clinical research organisation managing the clinical trial. According to Australian Accounting Standards (AASB 118 *Revenue*) revenue associated with this agreement shall be recognised by reference to the stage of completion (and estimated completion cost base) of the underlying clinical trial. In compliance with this treatment, as at 30 June 2017 the Company had incurred cumulative reimbursable costs $28.8 million (2016: $22.2m) and has booked associated other revenue of $27.7 million (2016: $18.5m), resulting in deferred revenue of $1.1 million (2016: $3.7m).

15. Current liabilities – Provisions

	2017	2016
	$'000	$'000
Employee benefits - long service leave	**682**	538

16. Non-current liabilities – Borrowings

	2017	2016
Secured	**$'000**	$'000
Lease liabilities (note 23)	**8,270**	9,258

Secured liabilities and assets pledged as security

Lease liabilities are effectively secured, as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

17. Non-current liabilities – Other liabilities

	2017	2016
	$'000	$'000
Deferred lease incentive (a)	**1,379**	1,617
Financing agreement (b)	**21,483**	22,573
	22,862	24,190

17. Non-current liabilities – Other liabilities (continued)

(a) The deferred lease incentive relates to a cash incentive received pursuant to a lease agreement. The deferred incentive is amortised over the 15 year lease term on a straight-line basis.

(b) On 30 January 2013, the company entered a financing agreement (as subsequently amended on 24 December 2014) with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest agreed to invest US$20 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the European Union ("EU") and the United States ("US"). As consideration for its investment, NovaQuest will only receive payments based upon the EU and US sales revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU (1 April 2021) and seven years from the launch of Bronchitol in the US. Payments that may become due are determined by reference to EU and US sales revenue bands and corresponding annual payment percentages.

The balance represents the initial investment by NovaQuest of US$20 million plus accrued finance costs (calculated based on forecast future sales of Bronchitol in the EU and US over the term of the finance agreement) less product net sales payments up to 30 June 2017 in accordance with accounting policy note 1(r)(ii). At 30 June 2016 the forecast future sales of Bronchitol in the EU were revised down resulting in a $3.1m reduction of the liability recorded as a negative finance cost.

18. Non-current liabilities – Provisions

	2017	2016
	$'000	$'000
Employee benefits - long service leave	**260**	267

19. Contributed equity

		Consolidated and Parent entity		**Consolidated and Parent entity**	
		2017	2016	**2017**	2016
Share capital (note (a))	Notes	**Shares**	Shares	**$'000**	$'000
Ordinary shares	(b),(c)				
Fully paid		319,106,844	317,154,457	**344,623**	344,623

Movements in ordinary share capital:

Details	**Number of shares**	**Issue price** (1)	**$'000**
Opening balance as at 1 July 2015	314,813,957		344,623
Exercise of employee options	2,132,500	$ –	–
Employee Share Plan	208,000	$ –	–
Closing Balance at 30 June 2016	317,154,457		344,623
Exercise of employee options	1,770,387	$ –	–
Employee Share Plan	182,000	$ –	–
Closing Balance at 30 June 2017	319,106,844		344,623

(1) The issue price on exercise of employee options represents an average issue price for the respective financial year.

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Equity plans

Information relating to the Pharmaxis Employee Equity Plans, including details of equity instruments issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, is set out in note 30.

19. Contributed equity (continued)

(c) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group predominately uses equity to finance its projects. In order to maintain or adjust the capital structure, the Group may issue new shares.

20. Reserves and accumulated losses

	2017	2016
(a) Reserves	**$'000**	$'000
Share-based payments reserve	**19,512**	18,571
Foreign currency translation reserve	**–**	–
	19,512	18,571
Share-based payments reserve		
Balance 1 July	**18,571**	17,656
Equity expense / (credit)	**941**	915
Balance 30 June	**19,512**	18,571
Foreign currency translation reserve		
Balance 1 July	**–**	(153)
Currency translation on dormant entity recognised in the income statement	**–**	153
Currency translation differences arising during the year	**–**	–
Balance 30 June	**–**	–

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2017	2016
	$'000	$'000
Balance 1 July	**(342,268)**	(325,805)
Net (loss) / profit for the year	**(18,346)**	(16,463)
Balance 30 June	**(360,614)**	(342,268)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of equity instruments granted.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The foreign currency translation reserve that was attributable to Pharmaxis Pharmaceuticals Limited was recognised in the income statement for the year ended 30 June 2016 as the company is no longer in operation.

21. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2017	2016
(a) Audit services	**$**	$
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	**98,000**	126,500
PricewaterhouseCoopers UK firm		
Audit of the financial report of Pharmaxis Pharmaceuticals Limited	**6,747**	14,448
Total remuneration for audit services	**104,747**	140,928
(b) Tax services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	**106,125**	33,675
International tax consulting and other tax advice	**7,600**	35,500
	113,725	69,175
Other PricewaterhouseCoopers firms		
Tax compliance services	**50,301**	40,607
Total remuneration for tax services	**164,026**	109,782

22. Contingent liabilities

The Group had contingent liabilities at 30 June 2017 in respect of:

Guarantees

The Group's bankers have issued bank guarantees secured by deposits at the bank for which no provision has been made in the accounts. The Group at 30 June 2017 had total deposits of $1.3 million (2016: $1.3 million) covering a rental bond, corporate credit card and payment clearing house facilities, and a UK Customs Duty Deferment facility.

23. Commitments

(a) Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2017	2016
	$'000	$'000
Plant and equipment		
Payable: Within one year	**45**	34

(b) Lease Commitments

(i) Non-cancellable operating leases

The Group leases various offices and items of plant and equipment under non-cancellable operating leases expiring within one to nine years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	2017	2016
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**798**	762
Later than one year but not later than five years	**3,450**	3,237
Later than 5 years	**710**	1,810
	4,958	5,809

(ii) Finance leases

The Group has a lease agreement for its custom designed manufacturing, warehousing, research and office facility of approximately 7,200 square metres. The lease has a term of 15 years, with two options to renew for a further five years each and the option to break the lease at ten years but with financial penalties attached. The initial minimum annual rental under the agreement for the finance lease component was $1.2 million. The operating lease component (disclosed in note 23 (b) (i)) was $0.4 million. Both components increase each year for the term of the agreement by 3.25%.

	2017	2016
	$'000	$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**1,551**	1,502
Later than one year but not later than five years	**6,726**	6,514
Later than five years	**3,266**	4,986
Minimum lease payments	**11,543**	13,002
Future finance charges	**(2,292)**	(2,880)
Total lease liabilities	**9,251**	10,122
Current (note 13)	**981**	864
Non-current (note 16)	**8,270**	9,258
	9,251	10,122

(iii) Other commitments

The Company has in place a number of contracts with consultants and contract research organisations in relation to its business activities. The terms of these contracts are for relatively short periods of time and/or allow for the contracts to be terminated with relatively short notice periods. The actual committed expenditure arising under these contracts is therefore not material.

24. Related party transactions

(a) Parent entities

The parent entity within the Group is Pharmaxis Ltd (incorporated in Australia).

(b) Subsidiaries

Interests in subsidiaries are set out in note 25.

(c) Key management personnel compensation

	2017	2016
	$	$
Short-term employee benefits	**2,125,514**	2,003,686
Post-employment benefits	**160,458**	146,374
Leave entitlement benefits	**49,097**	43,090
Share-based payments	**709,825**	627,338
	3,044,894	2,820,488

Detailed remuneration disclosures are provided in the remuneration report under section 2.2.

25. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**	
			2017	2016
			%	%
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	**100**	100
Pharmaxis, Inc.	United States	Ordinary	**100**	100
Topigen Pharmaceuticals Inc.	Canada	Ordinary	**100**	100
Technology Innovation Limited	United Kingdom	Ordinary	**100**	100

26. Events occurring after the balance sheet date

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

(a) the group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the group's state of affairs in future financial years.

27. Reconciliation of profit / (loss) after income tax to net cash inflows / (outflows) from operating activities

	2017	2016
	$'000	$'000
Loss for the year	**(18,346)**	(16,463)
Depreciation of property, plant & equipment	**3,244**	3,211
Amortisation & impairment of intangibles	**53**	228
Amortisation of lease incentive	**(239)**	(239)
Impairment losses – financial assets		
Trade receivables	**(109)**	64
Finance charges	**623**	(2,459)
Financing agreement unrealised foreign exchange (gains) losses	**(804)**	911
Non-cash share-based payments (credit) / expense	**941**	915
Net loss on disposal of non-current assets	**1**	–
Change in operating assets and liabilities		
Decrease in trade receivables	**1,499**	1,276
Increase in inventories	**(356)**	(638)
Increase in other operating assets	**(1,095)**	(786)
Increase / (decrease) in trade payables	**1,128**	(504)
(Decrease) / increase in other operating liabilities	**(1,937)**	2,462
Increase in other provisions	**135**	33
Net cash outflow from operating activities	**(15,262)**	(11,989)

28. Earnings per share

	2017	2016
	Cents	Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	**(5.8)**	(5.2)
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	**(5.8)**	(5.2)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (loss) per share	**318,515,621**	316,931,465
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	**319,106,844**	317,154,457

(d) Information concerning the classification of option securities

Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 30.

29. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Board provides written principles of overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Group holds the following financial instruments:

	2017	2016
Financial assets	**$'000**	$'000
Cash and cash equivalents	**21,504**	39,209
Trade and other receivables (current)	**4,569**	4,995
Other receivables (non-current)	**1,428**	1,297
	27,501	45,501
Financial liabilities		
Trade and other payables	**6,818**	5,022
Borrowings	**9,251**	10,122
Other liabilities	**23,759**	25,030
	39,828	40,174

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2017			30 June 2016		
	USD	**GBP**	**EUR**	USD	GBP	EUR
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**2,375**	**135**	**181**	865	538	769
Trade receivables	**91**	**119**	**595**	1,893	115	132
Other receivables	**–**	**241**	**–**	–	269	20
Trade payables	**2,414**	**321**	**50**	1,683	70	133
Other payables	**1,482**	**216**	**132**	708	165	106
Other liabilities	**22,142**	**–**	**–**	23,174	–	–

Group sensitivity

Based on the financial instruments held at 30 June 2017, had the Australian dollar weakened/strengthened by 5% against the USD with all other variables held constant, the Group's post-tax results for the year would have been $1,605,000 lower / $1,452,000 higher (2016: $1,128,000 higher/$1,021,000 lower), mainly as a result of foreign exchange gains/losses on translation of USD denominated financial assets/liabilities as detailed in the above table.

29. Financial risk management (continued)

(i) Cash flow and fair value interest rate risk

The Group's main interest exposure arises from term deposits held. As at the reporting date, the Group had the following cash profile:

	30 June 2017		30 June 2016	
	Weighted average interest rate	**Balance**	Weighted average interest rate	Balance
	%	**$'000**	%	$'000
Cash at bank & deposits at call	**0.0**	**5,025**	0.0	4,027
Term deposits	**2.44**	**16,479**	2.77	35,182
Other receivables	**1.31**	**1,309**	1.50	1,297

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2017, if interest rates had changed by +/- 50 basis points from the year-end rates with all other variables held constant, post-tax results for the year would have been $89,000 lower/higher (2016 – change of 50 bps: $182,000 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a minimum short term money market rating of 'A-2' and a long term credit rating of 'A+' are accepted. Credit risk on term deposits is further managed by spreading a minimum of 50% of the investment portfolio across the four major Australian banks (with a short term rating of A1+).

Customer credit risk is managed by the establishment of credit limits. The compliance with credit limits by customers is regularly monitored by management, as is the ageing analysis of receivable balances. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 7 and note 9. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	2017	2016
	$'000	$'000
Cash and cash equivalents		
A-1+	**16,881**	29,617
A-1	**4,609**	5,969
A-2	**–**	3,606
Not rated	**14**	17
	21,504	39,209
Trade receivables		
Not rated	**1,262**	2,653
Other receivables		
AA-	**41**	30
A+	**1,268**	1,267
Not rated	**–**	–
	1,309	1,297

Other receivables primarily represent bank guarantee facilities related to finance and operating leases, corporate credit card and local payment clearing house facilities.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets with short term maturity profiles.

29. Financial risk management (continued)

Maturities of financial liabilities

The table below analyse the Group's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount
	$'000	$'000	$'000	$'000	$'000	$'000
Group - at 30 June 2017						
Non-interest bearing	8,201	239	716	437	9,593	9,593
Fixed rate	1,551	1,602	5,124	3,379	11,656	9,249
Total non-derivatives	9,752	1,841	5,840	3,816	21,249	18,842
Group - at 30 June 2016						
Non-interest bearing	9,009	239	716	662	10,626	10,626
Fixed rate	1,503	1,551	4,963	5,142	13,159	10,121
Total non-derivatives	10,512	1,790	5,679	5,804	23,785	20,747

Included on the balance sheet is a financial liability related to a financing agreement of $22,142,000 (2016: $23,174,000). This liability is accounted for in accordance with Accounting Policy note 1(r)(ii) and the term of the agreement and forecast product related payment obligations are as detailed in Note 17(b).

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The carrying value of financial liabilities for disclosure purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

30. Share-based payments

(a) Employee Option Plan (closed)

The Pharmaxis Employee Option Plan ("EOP") was approved by shareholders in 1999 and amended by shareholders in June 2003. The company ceased granting market exercise price options under the EOP in October 2009 in favour of Pharmaxis Performance Rights (refer below). The maximum number of options available to be issued under the EOP is 15% of total issued shares including the EOP. All employees and directors were eligible to participate in the EOP, but did so at the invitation of the Board.

The terms of market exercise price options issued were determined by the Board. Options were generally granted for no consideration and vest equally over a four year period. Once vested, the options remain exercisable for up to 10 years from the grant date or termination of employment (whichever is earlier). For options granted after 1 January 2003 the annual vesting is subject to approval by the Remuneration and Nomination Committee of the Board. The Committee gives its approval for vesting based on the achievement of individual employee's personal annual objectives. Options granted under the EOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price was set by the Board. Before the company listed on the Australian Securities Exchange in November 2003, the Board set the exercise price based on its assessment of the market value of the underlying shares at the time of grant. From listing until 31 August 2006 the exercise price was set as the average closing price of Pharmaxis Ltd shares on the Australian Securities Exchange on the 5 business days prior to the grant of the options. From 1 September 2006 the exercise price was set as the average of the volume weighted average price of Pharmaxis Ltd shares on the Australian Securities Exchange on the 5 business days prior to the grant of options.

30. Share-based payments (continued)

Set out below are details of the total number of options exercised during the year and the weighted average share price at exercise date.

	2017	2016
Number of options exercised during the year	–	–
Weighted average Share price at exercise date of options exercised during the year	$ –	$ –

There were 460,000 vested options at 30 June 2017 (621,250 at 30 June 2016). Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2017								
15 Aug 2006	14 Aug 2016	$1.7770	18,750	–	–	18,750	–	–
26 Oct 2006	14 Aug 2016	$1.7770	20,000	–	–	20,000	–	–
20 Sept 2006	19 Sept 2016	$1.7518	5,000	–	–	5,000	–	–
14 Dec 2006	13 Dec 2016	$2.9310	15,000	–	–	15,000	–	–
18 Jun 2007	17 Jun 2017	$3.1755	102,500	–	–	102,500	–	–
10 Aug 2007	9 Aug 2017	$3.2490	17,000	–	–	–	17,000	17,000
6 Nov 2007	5 Nov 2017	$4.1500	40,000	–	–	–	40,000	40,000
8 Feb 2008	7 Feb 2018	$3.1266	3,000	–	–	–	3,000	3,000
11 Apr 2008	10 Apr 2018	$1.9735	4,000	–	–	–	4,000	4,000
23 June 2008	22 June 2018	$1.4590	1,500	–	–	–	1,500	1,500
23 Oct 2008	22 June 2018	$1.4590	200,000	–	–	–	200,000	200,000
12 Aug 2008	11 Aug 2018	$1.6770	100,500	–	–	–	100,500	100,500
23 Oct 2008	22 Oct 2018	$1.4660	2,500	–	–	–	2,500	2,500
11 Dec 2008	10 Dec 2018	$1.0207	5,000	–	–	–	5,000	5,000
23 Jun 2009	22 Jun 2019	$2.4098	86,500	–	–	–	86,500	86,500
Total			621,250	–	–	161,250	460,000	460,000
Average exercise price			$1.728	–	–	$2.773	$1.996	$1.996

30. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2016								
5 Aug 2005	4 Aug 2015	$1.6500	472,500	–	-	472,500	–	–
17 Oct 2005	16 Oct 2015	$2.6320	30,000	–	-	30,000	–	–
13 Feb 2006	12 Feb 2016	$2.0540	10,000	–	-	10,000	–	–
1 June 2006	31 May 2016	$1.8940	7,500	–	-	7,500	–	–
15 Aug 2006	14 Aug 2016	$1.7770	439,750	–	-	421,000	18,750	18,750
26 Oct 2006	14 Aug 2016	$1.7770	20,000	–	-	–	20,000	20,000
20 Sept 2006	19 Sept 2016	$1.7518	10,000	–	-	5,000	5,000	5,000
14 Dec 2006	13 Dec 2016	$2.9310	15,000	–	-	–	15,000	15,000
18 Jun 2007	17 Jun 2017	$3.1755	102,500	–	-	–	102,500	102,500
10 Aug 2007	9 Aug 2017	$3.2490	1,033,500	–	-	1,016,500	17,000	17,000
5 Nov 2007	14 Nov 2016	$3.0858	200,000	–	-	200,000	–	–
6 Nov 2007	5 Nov 2017	$4.1500	40,000	–	-	–	40,000	40,000
8 Feb 2008	7 Feb 2018	$3.1266	3,000	–	-	–	3,000	3,000
11 Apr 2008	10 Apr 2018	$1.9735	4,000	–	-	–	4,000	4,000
23 June 2008	22 June 2018	$1.4590	1,500	–	-	–	1,500	1,500
23 Oct 2008	22 June 2018	$1.4590	200,000	–	-	–	200,000	200,000
12 Aug 2008	11 Aug 2018	$1.6770	777,500	–	-	677,000	100,500	100,500
23 Oct 2008	22 Oct 2018	$1.4660	15,000	–	-	12,500	2,500	2,500
11 Dec 2008	10 Dec 2018	$1.0207	5,000	–	-	–	5,000	5,000
5 Feb 2009	4 Feb 2019	$1.1980	20,000	–	-	20,000	–	–
23 Jun 2009	22 Jun 2019	$2.4098	678,875	–	-	592,375	86,500	86,500
Total			4,085,625	–	-	3,464,375	621,250	621,250
Average exercise price			$2.335	–	-	$2.360	$1.728	$1.728

Fair value of options granted

There were no market exercise price options granted during the year ended 30 June 2017.

30. Share-based payments (continued)

(b) Performance Rights Plan

The Pharmaxis Performance Rights Plan was launched in September 2010 and enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as "Performance Rights" to eligible employees of the Group. Senior Executives will, together with other eligible employees be invited by the Remuneration and Nomination Committee to participate in this plan. The key features of the plan are as follows:

- Performance Rights are granted under the Pharmaxis Employee Option Plan ("EOP"), initially approved by shareholders in 1999.
- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position and responsibility, the employee's performance, the employee's salary, and the Pharmaxis share price.
- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The performance rights will lapse in the event the employee ceases to be an employee before the vesting date.
    - In 2010 the Board set the vesting term as the third anniversary of the grant date.
    - In 2012 the Board determined to vest half the performance rights two years from the grant date and the other half to vest three years from the grant date.
    - The performance rights issued in 2013 vested in three instalments. Thirty percent on 31st January 2014, thirty five percent on 31st July 2014 and thirty five percent on 31st July 2015. The initial tranche was designed to provide a retention incentive to Senior Executives and other key employees over what was a particularly challenging time. The last two vesting dates were subject to achievement of performance criteria related to the business restructuring.
    - The performance rights issued in 2016 have various vesting dates with 37% vesting on 30 June 2016, 38% on 30 June 2017 and 25% on 30 June 2018. This reflects a mix of an additional grant of performance rights to four senior executives in recognition of significant achievements in 2015 with a one year vesting from grant date, and a general grant of performance rights with half the performance rights vesting two years from the grant date and the other half vesting three years from the grant date.
    - In 2017 the Board determined to vest half the performance rights two years from the grant date and the other half to vest three years from the grant date.
    - Apart from performance rights granted in 2013, the Board did not impose additional performance criteria at the point of vesting. Performance rights are granted at the end of the financial year and performance during the year is one factor considered by the Board in determining the quantum of grants. Additional performance criteria at the point of vesting is not considered to be appropriate given the stage of the Company's development, the Company's market valuation and the requirement for agility in adapting corporate objectives in response to the drug development process. The Board considers that the interests of shareholders are better served by a conservative approach to the quantum of performance rights granted, a relative balanced vesting period and by imposing restrictions on resale as discussed below.
- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
    - for performance rights granted in 2010 shares issued upon exercise were restricted from sale for four years from grant date.
    - for performance rights granted in 2012, 2016 and 2017 shares issued upon exercise were restricted from sale for three years from grant date.
    - for performance rights granted in 2013 shares issued upon exercise were not subject to any restriction, except as noted below for Senior Executive Officers.
    - shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

30. Share-based payments (continued)

There were 3,147,250 vested performance rights at 30 June 2017 (1,656,000 at 30 June 2016). Set out below are summaries of the performance rights granted under the plan:

Grant Date	Expiry Date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated 2017								
20 Oct 2010	6 Sept 2020	$ –	17,000	–	7,000	–	10,000	10,000
29 Jun 2012	28 Jun 2022	$ –	232,000	–	30,000	–	202,000	202,000
18 Oct 2012	17 Oct 2022	$ –	30,000	–	–	–	30,000	30,000
7 Jun 2013	6 Jun 2023	$ –	561,137	–	368,387	–	192,750	192,750
31 Jul 2015	30 Jun 2025	$ –	4,324,000	–	550,000	–	3,774,000	2,307,000
20 Nov 2015	30 Jun 2025	$ –	1,626,000	–	815,000	–	811,000	405,500
26 Jul 2016	30 Jun 2026	$ –	–	3,848,000	–	104,000	3,744,000	–
29 Nov 2016	31 Aug 2026	$ –	–	53,000	–	–	53,000	–
29 Nov 2016	29 Nov 2026	$ –	–	827,000	–	–	827,000	–
Total			6,790,137	4,728,000	1,770,387	104,000	9,643,750	3,147,250

Grant Date	Expiry Date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated 2016								
7 Sept 2010	6 Sept 2020	$ –	8,000	–	8,000	–	–	–
20 Oct 2010	6 Sept 2020	$ –	29,000	–	12,000	–	17,000	17,000
15 Nov 2010	14 Nov 2020	$ –	9,000	–	9,000	–	–	–
29 Jun 2012	28 Jun 2022	$ –	435,000	–	203,000	–	232,000	232,000
18 Oct 2012	17 Oct 2022	$ –	30,000	–	–	–	30,000	30,000
7 Jun 2013	6 Jun 2023	$ –	1,761,637	–	1,200,500	–	561,137	561,137
29 Nov 2013	6 Jun 2023	$ –	700,000	–	700,000	–	–	–
31 Jul 2015	30 Jun 2025	$ –	–	4,384,000	–	60,000	4,324,000	1,390,000
20 Nov 2015	30 Jun 2025	$ –	–	1,626,000	–	–	1,626,000	815,000
Total			2,972,639	6,010,000	2,132,500	60,000	6,790,137	1,656,000

There were 104,000 performance rights forfeited during 2017 (2016: 60,000). The weighted average remaining contractual life of performance rights outstanding at the end of the period was 8.40 years (2016 – 8.70 years).

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2017 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

Year ended 30 June 2017				Year ended 30 June 2016			
Grant date	**No. of options granted**	**Exercise Price**	**Share Price**	**Grant date**	**No. of options granted**	**Exercise Price**	**Share Price**
26 Jul 2016	3,848,000	–	$0.2821	31 Jul 2015	4,384,000	–	$0.225
29 Nov 2016	880,000	–	$0.2658	20 Nov 2015	1,626,000	–	$0.230

30. Share-based payments (continued)

(c) Employee Share Plan

The Pharmaxis Share Plan was launched in September 2010 and will grant up to A$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, Pharmaxis Ltd may grant A$1,000 of options (refer note (d) below) in place of ordinary shares. Senior executives do not participate in this plan. Set out below are summaries of employee shares granted under the plan:

	2017	2016
Number of shares issued under the plan to participating employees	**182,000**	208,000

(d) International Employee Equity Plan

The Pharmaxis International Employee Equity Plan was launched in September 2010 and enables the grant of up to A$1,000 of zero exercise price options to eligible employees outside Australia (referred to herein as 'International ZEPO').

There were no International ZEPO's outstanding as at 30 June 2017 (2016: Nil).

There were 860 International ZEPO's forfeited during 2016.

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2017	2016
	$'000	$'000
Equity instruments issued under employee equity plans	**941**	915

31. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts.

	2017	2016
Balance sheet	**$'000**	$'000
Current assets	**28,643**	46,417
Total assets	**45,434**	65,653
Current liabilities	**10,521**	11,012
Total liabilities	**41,913**	44,727
Shareholders' equity		
Issued capital	**344,623**	344,623
Share based payments reserve	**19,512**	18,571
Accumulated losses	**(360,614)**	(342,268)
	3,521	20,926
(Loss) / profit for the year	**(18,346)**	(14,967)
Total comprehensive income	**(18,346)**	(14,967)

(b) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2017, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $45,000 (30 June 2016 - $34,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

6.2 DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 23 to 57 are in accordance with the *Corporations Act 2001,* including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

(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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

Gary J Phillips

Director

Sydney

10 August 2017

pwc

Independent auditor's report

To the shareholders of Pharmaxis Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Pharmaxis Ltd (the Company) and its controlled entities (together, the Group or Pharmaxis) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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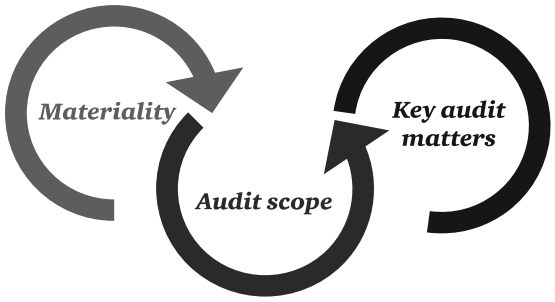
Having regard to the operational and governance structure of the Group, we tailored the scope of our audit and skills of our audit team to ensure that sufficient work was undertaken to enable us to form an opinion on the financial report as a whole.



Materiality

For the purpose of our audit we applied an overall materiality of $0.9m, which approximates 5% of the Group's loss before tax.

We selected this benchmark, based on our professional judgement, noting that:

- loss before tax is the metric against which the performance of the Company is most commonly measured
- 5% is within the range of commonly acceptable profit/loss related thresholds.

We applied this materiality threshold, together with qualitative considerations, to:

- determine the scope of our audit and the nature, timing and extent of our audit procedures and
- evaluate the effect of any identified misstatements on the financial report as a whole.

Audit scope

Our audit focused on:

- subjective judgements made by the Group and
- significant accounting estimates involving assumptions and inherently uncertain future events.

Pharmaxis is a pharmaceutical research company with approved products in various markets around the world, and a drug discovery program dedicated to finding new treatments for patients in areas of high unmet clinical need. The accounting processes are structured around a group finance function at its head office in Sydney. Our audit procedures were predominately performed at Group head office in Sydney.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. Amongst other relevant topics, we communicated the key audit matters to the Audit Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Financial liability *(Refer to note 17: $21.5m financing agreement)* The Group has a financing agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which Pharmaxis received US$20 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the European Union (EU) and the United States of America (US). The repayment amounts and timing of the NovaQuest financing are dependent on the quantum and timing of forecast sales in territories covered by the agreement. The accounting for the NovaQuest financial liability was assessed as a key audit matter given: • the financial significance of the liability to the statement of financial position; and • the judgement applied by the Group in assessing the assumptions deriving the liability's balance and associated finance costs, including forecast sales in territories covered by the agreement and timing of launch into these territories.	Our audit procedures included: • reading the applicable executed contracts and checking that the basis and composition of the financing in the executed contracts was consistent with the accounting principles applied for the liability • assessing the assumptions of the quantum and timing of forecast sales in applicable territories within the financial liability calculations, including considering consistency with Group forecasts and Board of Director minutes • examining bank statements for liability repayments • recalculating the principal financial liability calculations • comparing the exchange rates used in the financial liability calculations to market data. We assessed the appropriateness of the Group's disclosure in the financial report in light of the requirements of the Australian Accounting Standards.
Other revenue and income recognition *(Refer to note 3a)* The Group earns revenue from clinical trial cost reimbursements under an agreement with Chiesi Pharmaceutici SpA. Clinical trial cost reimbursement revenue is recognised in accordance with the stage of completion of the associated clinical trial. The accounting for this item of revenue was assessed as a key audit matter given: • the financial significance to the result for the period; and • the judgment applied by the group in the assessment of the total expected clinical trial costs and assessing the percentage of completion of the clinical trial.	Our audit procedures included: • reading the underlying contractual entitlements and reading board of director minutes and checking that the terms in the contracts were consistent with the accounting revenue principles applied • examining bank statements for receipt of associated income • testing the completeness of the associated clinical trial costs • considering the estimated overall costs required to complete the associated clinical trials • Recalculating the percentage of completion of the clinical trial to support the quantum of revenue recognised and deferred. We also assessed the adequacy of the revenue disclosures in the financial report in light of the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information presented within the Company's annual report. This other information comprises the Director's Report, Corporate Governance, Senior Management, Operating and Financial Review and Prospects in the Company's annual report (but does not include the financial report and our auditor's report thereon) which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including Shareholder Information.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

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

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

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 8 to 18 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Pharmaxis Pty for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

Mark Dow
Partner
10 August 2017

7 SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 4 September 2017.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Class of equity security Ordinary shares	Shares	Restricted Shares	Options	Performance Rights
1 – 1000	359	4	6	–
1,001 – 5,000	1,530	5	6	–
5,001 – 10,000	876	8	4	–
10,001 – 100,000	1,626	40	5	4
100,001 and over	238	–	1	27
	4,629	57	22	31

There were 521 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

*Twenty largest quoted equity security holder*s

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number Held	Percentage of issued shares
Citicorp Nominees Pty Limited	88,843,847	27.79
National Nominees Limited	38,137,438	11.93
HSBC Custody Nominees (Australia) Limited	27,064,028	8.47
J P Morgan Nominees Australia Limited	15,847,438	4.96
George Engineering Pty Ltd (PG Superfund a/c)	2,500,000	0.78
Mr Yingkai Li	2,360,000	0.74
David Newnham Super Pty Ltd (DRN Superannuation Fund a/c)	2,289,333	0.72
Healthcare Management Consulting (Australia) Pty Ltd	2,220,000	0.69
Mutual Trust Pty Ltd	2,185,000	0.68
Pakasoluto Pty Limited (Barkl Family Superfund a/c)	2,086,838	0.65
Alpha Matilda Trading Pty Ltd (Alpha Matilda Superfund a/c)	1,750,446	0.55
Simgon Pty Ltd (R K Superfund a/c)	1,750,000	0.55
Moggs Creek Pty Ltd (Moggs Creek Superfund a/c)	1,747,020	0.55
Lawn Views Pty Ltd	1,252,980	0.39
Mr Marco Andrea Negro	1,200,000	0.38
Ginga Pty Ltd (TG Klinger Superfund a/c)	1,159,397	0.36
Mr Brian Tully + Mrs Margaret Tully (Superannuation Fund a/c)	1,145,500	0.36
Kilcare Holdings Pty Ltd (Kilcare a/c)	1,104,413	0.35
Ms Bei Xu + Mr Dongning Wu	1,080,747	0.34
Capital Regional Et Cooperatif Desjardins	1,053,867	0.33

Unquoted equity securities

	Number Held	Number of Holders
Options issued under the Pharmaxis Ltd Employee Option Plan	443,000	22
Performance rights issued	12,301,250	31

C. Substantial holders

Substantial holders in the Company are set out below:

	Number Held	Percentage
BVF Partners LP	63,823,669	20.0%
Australian Ethical Investment Limited	32,424,427	10.1%
Allan Gray Australia Pty Ltd	22,385,398	7.0%
Montoya Investments Limited	19,123,830	6.0%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

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8 CORPORATE DIRECTORY

Directors
Malcolm McComas – Chairman
Gary Phillips – Chief Executive Officer
Simon Buckingham
William Delaat
Kathleen Metters

Company Secretary and Chief Financial Officer
David McGarvey

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Fax: +61 2 9451 3622
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Incorporation Information
Incorporated in Australia

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Australian Business Number	75 082 811 630

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www.pharmaxis.com.au

Legal Advisors
PFM Legal Pty Ltd
Level 7, 257 Clarence Street
Sydney NSW 2000, Australia

Auditor
PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo NSW 2000, Australia

Bankers
HSBC Bank Australia Ltd
Westpac Banking Corporation

Securities Exchange Listings
Pharmaxis shares are listed on the Australian Securities Exchange (Code: PXS)
Pharmaxis American Depositary Receipts (ADRs) are traded on the US over-the-counter market (Code: PXSLY)

Share Registry
Computershare Investor Services Pty Ltd
Level 4, 60 Carrington Street
Sydney NSW 2000
Australia
Telephone: +61 3 9415 4000 (within Australia: 1300 855 080)
Fax: +61 3 9473 2500
www.computershare.com

American Depositary Receipts
Registrar and Transfer Agent:
BNY Mellon Shareowner Services
480 Washington Blvd., 27th floor
Jersey City, NJ 07310
United States of America
Telephone within the U.S.: (201) 680-4000
Telephone outside the U.S.: +1 201 680 6825

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