Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2016

Lodged with the ASX under Listing Rule 4.2A

This report is to be read in conjunction with the financial statements for the year ended 30 June 2016 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Half year ended 31 December 2016

(Previous corresponding period: Half year ended 31 December 2015)

Results for announcement to the market

				A$'000
Revenue from sale of goods	**Down**	**55%**	to	**1,690**
Other revenue from ordinary activities	**Down**	**8%**	to	**5,220**
Total revenue from ordinary activities	**Down**	**26%**	to	**6,910**
Loss from ordinary activities after tax	**Down**	**1%**	to	**(11,035)**
Net loss attributable to members	**Down**	**1%**	to	**(11,035)**

Dividends

It is not proposed to pay a dividend.

Other Appendix 4D information

	31 December 2016	31 December 2015
Net tangible assets per ordinary share	**$0.032**	$ 0.079

Pharmaxis Ltd
Half-Year Report - 31 December 2016

Contents

This half-year report covers the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial statements are 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

This interim financial report does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the financial statements for the year ended 30 June 2016 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 these financial statements.

The half-year report was authorised for issue by the directors on 16th February 2017. The Company has the power to amend and reissue the financial statements.

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

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2016

Your directors present their report on the consolidated entity consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report:

Malcolm McComas (Chairman)
Gary Phillips (Chief Executive Officer)
William Delaat
Simon Buckingham

Principal activities, review of operations and significant changes in the state of affairs

Overview

Pharmaxis is a research pharmaceutical company with a portfolio of products at various stages of development and approval including two drug discoveries approved in various world markets and a research pipeline focused on areas of high unmet clinical need.

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 Semicarbazide-Sensitive Amine Oxidase (SSAO) inhibitors for Non-alcoholic Steatohepatitis (NASH) and inflammatory diseases including kidney fibrosis and Chronic Obstructive Pulmonary Disease (COPD), and Lysyl Oxidase (LOX) inhibitors targeting fibrotic diseases including NASH, pulmonary fibrosis and some cancers. Pharmaxis' acknowledged expertise in amine oxide chemistry has attracted interest from leading pharmaceutical companies looking to make acquisitions or partner in this rapidly expanding growth area of scientific research. In May 2015, Boehringer Ingelheim (Boehringer) acquired the Pharmaxis phase 1 investigational drug PXS4728A, to develop it for the treatment of the diabetes and liver-related condition NASH.

Pharmaxis manufacturers and exports it's approved products from a purpose built high-tech manufacturing facility in Sydney.

- Bronchitol®, an inhaled dry powder for the treatment of cystic fibrosis (CF), 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 is currently underway aiming to secure approval in the United States.
- Aridol® a lung function test for asthma is approved and sold in Europe, Australia and Asia.

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

Drug discovery

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

- 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 reported that:
    - the phase 2 trial in NASH will commence in the second quarter of 2017, triggering a milestone payment to Pharmaxis of approximately A$25 million.
    - it has concluded several non-clinical safety and pharmacokinetic studies and have successfully progressed the scale up of drug synthesis.
    - 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 has prepared a target profile and the clinical development steps for a second indication. The indication remains confidential at this stage and timing of the commencement of a phase 2 study is yet to be advised. Under our agreement with Boehringer Pharmaxis will receive 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, but weighted more towards the latter stage of development and approval.
- 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. The lead optimisation work of the chemistry team was completed during the half year and the Company is now working with its collaborator, UK biotechnology company Synairgen plc (LSE: SNG) to select which drug candidates to take forward into

Financial Highlights

Revenue from sale of goods

Sales for the half year ended 31 December 2016 were $1.7 million, a decrease of $2.0 million on the 2015 half-year. The decrease is the result of Chiesi building up their Bronchitol inventory levels during the half year ended 31 December 2015 since being appointed by Pharmaxis as its exclusive distributor for the UK and Germany from 1 June 2015. Ongoing Bronchitol sales by Pharmaxis will continue to reflect the timing of Chiesi orders to replenish inventory rather than in market use of the product. Bronchitol sales by Chiesi to pharmacies in the UK and Germany for the six months to 31 December 2016 were 7 percent higher than the six months to 31 December 2015.

The group sold Aridol to customers in Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2016 were $980,000, an increase of 2 percent over the half year ended 31 December 2015. This increase reflected higher sales in Australia and Europe offset by weaker sales in South Korea.

Interest

The decrease in interest income was driven by lower interest rates and a decrease of cash and cash equivalents.

Other revenue and income

Other revenue includes an amount of $4.3 million (2015: $4.4 million) representing the recognition of R&D cost reimbursements for the half-year ended 31 December 2016 pursuant to the commercialisation agreement with Chiesi. The amount reimburses Pharmaxis for the clinical trial costs from the clinical research organisation managing the Company's US Phase III pivotal clinical trial in cystic fibrosis adults aged 18 years and over, up to a maximum of US$22.0 million. The revenue recognised each period is reduced by a revenue deferral designed to recognise Pharmaxis' expected funding requirement at the end of the trial (currently US$ 4 million) over the term of the trial. The total deferred revenue at 31 December 2016 is A$5.3 million, of which A$1.6 million was deferred in the half-year ended December 2016. As at 31 December 2016 Chiesi had contributed all of its US$22 million commitment to CF303.

Other income includes an amount of $330,000 charged to Synairgen under our research collaboration agreement for drug discovery services that commenced in August 2015.

The remaining component of other income includes an amount of $179,000 representing the sub-leasing part of the Company's Frenchs Forest premises.

Employee costs

Employee related expenses were $5.5 million in the half-year ended 31 December 2016 compared to $5.2 million in the half-year ended 31 December 2015. Employee costs include share based payments (non-cash) totalling $0.5 million in the 2016 period, compared to $0.4 million in the corresponding 2015 period. At 31 December 2016 the Company employed 66 full time equivalents of whom 70 percent were in the Bronchitol and Aridol business, 22 percent in drug development, and 8 percent in the corporate segment.

Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were $1.1 million in the 2016 half-year period and $1.2 million in 2015.

Clinical trials

Clinical trials expenses were $5.4 million in the half-year ended 31 December 2016 compared to $6.4 million in the half-year ended 31 December 2015, a decrease of $1.0 million. 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. The decrease is the result of the completion of the Phase 2 European paediatric clinical in December 2015 and the progression of the Phase 3 clinical trial of Bronchitol for the treatment of CF in adults aged 18 years. The clinical trial expenses for the 2016 period is solely related to the outsourced costs for the Phase 3 clinical trial (2015: $5.7m) and are reimbursed under the terms of the commercialisation agreement with Chiesi to a maximum of US$22.0 million that has been fully utilised in December 2016.

Drug development

Drug development expenses were $1.6 million for the half-year ended 31 December 2016 compared to $1.2 million in the half-year ended 31 December 2015. The drug development expenses relate to the external costs incurred in running the Company's research laboratory (excluding any allocation of lease and utilities), selecting and then progressing drug

Financial Highlights

Revenue from sale of goods

Sales for the half year ended 31 December 2016 were $1.7 million, a decrease of $2.0 million on the 2015 half-year. The decrease is the result of Chiesi building up their Bronchitol inventory levels during the half year ended 31 December 2015 since being appointed by Pharmaxis as its exclusive distributor for the UK and Germany from 1 June 2015. Ongoing Bronchitol sales by Pharmaxis will continue to reflect the timing of Chiesi orders to replenish inventory rather than in market use of the product. Bronchitol sales by Chiesi to pharmacies in the UK and Germany for the six months to 31 December 2016 were 7 percent higher than the six months to 31 December 2015.

The group sold Aridol to customers in Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2016 were $980,000, an increase of 2percent over the half year ended 31 December 2015. This increase reflected higher sales in Australia and Europe offset by weaker sales in South Korea.

Interest

The decrease in interest income was driven by lower interest rates and a decrease of cash and cash equivalents.

Other revenue and income

Other revenue includes an amount of $4.3 million (2015: $4.4 million) representing the recognition of R&D cost reimbursements for the half-year ended 31 December 2016 pursuant to the commercialisation agreement with Chiesi. The amount reimburses Pharmaxis for the clinical trial costs from the clinical research organisation managing the Company's US Phase III pivotal clinical trial in cystic fibrosis adults aged 18 years and over, up to a maximum of US$22.0 million. The revenue recognised each period is reduced by a revenue deferral designed to recognise Pharmaxis' expected funding requirement at the end of the trial (currently US$ 4 million) over the term of the trial. The total deferred revenue at 31 December 2016 is A$5.3 million, of which A$1.6 million was deferred in the half-year ended December 2016. As at 31 December 2016 Chiesi had contributed all of its US$22 million commitment to CF303.

Other income includes an amount of $330,000 charged to Synairgen under our research collaboration agreement for drug discovery services that commenced in August 2015.

The remaining component of other income includes an amount of $179,000 representing the sub-leasing part of the Company's Frenchs Forest premises.

Employee costs

Employee related expenses were $5.5 million in the half-year ended 31 December 2016 compared to $5.2 million in the half-year ended 31 December 2015. Employee costs include share based payments (non-cash) totalling $0.5 million in the 2016 period, compared to $0.4 million in the corresponding 2015 period. At 31 December 2016 the Company employed 66 full time equivalents of whom 70 percent were in the Bronchitol and Aridol business, 22 percent in drug development, and 8 percent in the corporate segment.

Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were $1.1 million in the 2016 half-year period and $1.2 million in 2015.

Clinical trials

Clinical trials expenses were $5.4 million in the half-year ended 31 December 2016 compared to $6.4 million in the half-year ended 31 December 2015, a decrease of $1.0 million. 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. The decrease is the result of the completion of the Phase 2 European paediatric clinical in December 2015 and the progression of the Phase 3 clinical trial of Bronchitol for the treatment of CF in adults aged 18 years. The clinical trial expenses for the 2016 period is solely related to the outsourced costs for the Phase 3 clinical trial (2015: $5.7m) and are reimbursed under the terms of the commercialisation agreement with Chiesi to a maximum of US$22.0 million that has been fully utilised in December 2016.

Drug development

Drug development expenses were $1.6 million for the half-year ended 31 December 2016 compared to $1.2 million in the half-year ended 31 December 2015. The drug development expenses relate to the external costs incurred in running the Company's research laboratory (excluding any allocation of lease and utilities), selecting and then progressing drug

candidates through the pre-clinical development path.

Sales, marketing & distribution

Sales & marketing expenses are external costs incurred in obtaining marketing and pricing approvals and selling Bronchitol globally, primarily through distributors. Limited resources are directed at the sale of Aridol. Sales & marketing expenses for the current half-year were $0.5 million, compared to $0.6 million in the half-year ended 31 December 2015. The expenses in both periods include costs associated in applying for pricing reimbursements.

Safety, medical and regulatory affairs expenses

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. Expenses for the current half-year were $0.7 million, a decrease of $0.2 million on the 2015 half year spend. The main cost relates to satisfying 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 (to December 2017). The costs of this study for the six months ended 31 December 2016 totalled $0.3 million (2015: $0.4 million).

Manufacturing purchases

Manufacturing purchases were $0.7 million in the half-year ended 31 December 2016 compared to $0.9 million in the half-year ended 31 December 2015, a decrease of $0.2 million. 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.

Other

Other expenses were a gain of $0.5 million in the half-year ended 31 December 2016 compared to a loss of $0.7 million in the half-year ended 31 December 2015, representing a decrease of $1.2 million. This category encompasses 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.

The gain is the result of the transfer of manufacturing labour and overhead to finished inventory $1.0 million in the half-year ended 31 December 2016 compared to a loss of $0.2 million in the half-year ended 31 December 2015, associated with the build up of inventory for orders shipped in early 2017.

Also included are royalty costs payable to the Sydney Local Health District, or SLHD, based on gross profit on product sales for products incorporating the licensed technology. The Pharmaxis products Aridol and Bronchitol fall within the scope of the SLHD license.

Foreign exchange gains & losses

Foreign exchange losses were $0.7 million in the half-year ended 31 December 2016 compared to $1.0 million in the half-year ended 31 December 2015. The foreign exchange losses are largely unrealised and due to the movement on the USD denominated NovaQuest finance agreement.

Depreciation & amortisation

Depreciation and amortisation expense was $1.5 million in the half-year ended 31 December 2016 in line with the half-year ended 31 December 2015.

Finance expenses

Finance expenses were $0.3 million in the 2016 half-year period in line with 2015. The finance charges relate to the capitalised finance lease of our corporate manufacturing facility at French's Forest, Sydney.

Income tax expense

Income tax expense in the 2015 half year relates to tax on the income generated by the group's subsidiaries which was reimbursed for their R&D and sales and marketing expenditures on a cost plus basis, upon which tax was payable. The group's overseas subsidiaries are currently dormant.

Balance Sheet

The group ended the half-year with $29 million in cash and cash deposits.

Inventory increased to $3.2 million at 31 December 2016 as Bronchitol was manufactured for several large orders shipped in early 2017.

Trade and other receivables includes the 2016 research and development tax credit of $2.1 million that is awaiting assessment by the Australian Tax Office. No tax credit has been accounted for in relation to the December 2016 half year as the group expects the 2017 fiscal year aggregated revenue to exceed the $20 million cap for a refundable tax credit.

Deferred revenue of $5.3 million at 31 December 2016 relates to the reimbursement of clinical trial costs under the Company's agreement with Chiesi.

Events occurring after the end of the reporting period

No matters or circumstance have arisen since 31 December 2016 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.

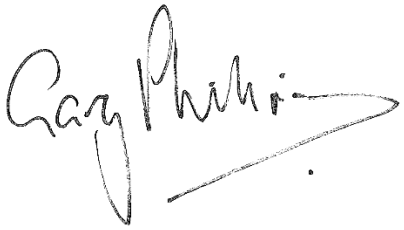
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Rounding of amounts

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

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



Gary J Phillips
Director
16th February 2017

Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half-year ended 31 December 2016, 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 review; and

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

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

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
16 February 2017

Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2016

	Notes	**31 December 2016 $'000**	31 December 2015 $'000
Revenue from continuing operations			
Revenue from sale of goods	3	**1,690**	3,727
Other revenue	3	**4,710**	5,052
Other income	4	**510**	593
		6,910	9,372
Expenses from ordinary activities			
Employee costs		**(5,455)**	(5,233)
Administration & corporate		**(1,065)**	(1,153)
Rent, occupancy & utilities		**(544)**	(624)
Clinical trials		**(5,398)**	(6,375)
Drug development		**(1,592)**	(1,180)
Sales, marketing & distribution		**(457)**	(635)
Safety, medical and regulatory affairs		**(693)**	(913)
Manufacturing purchases		**(733)**	(900)
Other		**526**	(699)
Depreciation & amortisation		**(1,523)**	(1,516)
Foreign exchange gains & losses		**(689)**	(975)
Finance costs		**(322)**	(347)
		(17,945)	(20,550)
Loss before income tax		**(11,035)**	(11,178)
Income tax expense		**-**	(7)
Loss for the period		**(11,035)**	(11,185)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	8	**(0.03)**	(0.04)
Diluted earnings / (loss) per share	8	**(0.03)**	(0.04)

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

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the half-year ended 31 December 2016

	31 December 2016	31 December 2015
	$'000	$'000
Loss for the period	**(11,035)**	(11,185)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**-**	18
Other comprehensive loss for the period, net of tax	**-**	18
Total comprehensive loss for the period	**(11,035)**	(11,167)
Total comprehensive loss for the period is attributable to:		
Owners of Pharmaxis Ltd	**(11,035)**	(11,167)

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

Pharmaxis Ltd

Consolidated balance sheet

As at 31 December 2016

	Notes	**31 December 2016 $'000**	30 June 2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**29,245**	39,209
Trade and other receivables		**5,272**	4,995
Inventories		**3,167**	2,213
Total current assets		**37,684**	46,417
Non-current assets			
Receivables		**1,293**	1,297
Property, plant and equipment		**16,346**	17,793
Intangible assets		**164**	146
Total non-current assets		**17,803**	19,236
Total assets		**55,487**	65,653
LIABILITIES			
Current liabilities			
Trade and other payables		**3,616**	5,022
Borrowings		**881**	864
Other liabilities		**784**	840
Deferred revenue		**5,303**	3,748
Provisions		**618**	538
Current tax liabilities		**-**	-
Total current liabilities		**11,202**	11,012
Non-current liabilities			
Borrowings		**8,818**	9,258
Other liabilities		**24,827**	24,190
Provisions		**271**	267
Total non-current liabilities		**33,916**	33,715
Total liabilities		**45,118**	44,727
Net assets		**10,369**	20,926
EQUITY			
Contributed equity	5 (a)	**344,623**	344,623
Reserves		**19,049**	18,571
Accumulated losses		**(353,303)**	(342,268)
Total equity		**10,369**	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 half-year ended 31 December 2016

	Contributed equity	Reserves	Accumulated losses	Total
	$'000	$'000	$'000	$'000
Balance at 30 June 2015	344,623	17,503	(325,805)	36,321
Loss for the period	-	-	(11,185)	(11,185)
Other comprehensive income	-	18	-	18
Total comprehensive income/(loss) for the half year	-	18	(11,185)	(11,167)
Transactions with owners in their capacity as owners				
Employee share options	-	358	-	358
	-	358	-	358
Balance at 31 December 2015	344,623	17,879	(336,990)	25,512
Balance at 30 June 2016	**344,623**	**18,571**	**(342,268)**	**20,926**
Loss for the period	**-**	**-**	**(11,035)**	**(11,035)**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the half year	**-**	**-**	**(11,035)**	**(11,035)**
Transactions with owners in their capacity as owners				
Employee share options	**-**	**478**	**-**	**478**
	-	**478**	**-**	**478**
Balance at 31 December 2016	**344,623**	**19,049**	**(353,303)**	**10,369**

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 half-year ended 31 December 2016

	31 December 2016 $'000	31 December 2015 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**8,072**	11,316
Payments to suppliers and employees (inclusive of goods and services tax)	**(17,375)**	(18,378)
	(9,303)	(7,062)
Interest received	**409**	658
Income taxes refunded (paid)	**-**	(22)
Net cash outflow from operating activities	**(8,894)**	(6,426)
Cash flows from investing activities		
Payments for plant and equipment	**(173)**	(1,087)
Proceeds from disposal of plant & equipment	**-**	2
Payments for intangible assets	**(41)**	(7)
Net cash outflow from investing activities	**(214)**	(1,092)
Cash flows from financing activities		
Finance lease payments	**(744)**	(720)
Financing agreement payments	**(112)**	(152)
Net cash outflow from financing activities	**(856)**	(872)
Net decrease in cash and cash equivalents	**(9,964)**	(8,390)
Cash and cash equivalents at the beginning of the financial period	**39,209**	54,138
Effects of exchange rate changes on the balance of cash held in foreign currencies	**-**	188
Cash and cash equivalents at the end of the financial period	**29,245**	45,936

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

1. Basis of preparation of half-year report

This condensed consolidated interim financial report for the interim half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial statement does not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act* 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods. The Group has yet to assess the impact of the new lease standard (AASB 16) and the new revenue standard (AASB 15) which are expected to be adopted by the Group for the financial years commencing 1 July 2019 and 1 July 2018 respectively.

2. Segment information

(a) Description of segments

The group's senior management committee, consisting of the chief executive officer, chief financial officer, medical director, head of drug development and head of alliance management, considers the business from a product family group 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 series of inflammatory and respiratory 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 half-year ended 31 December 2016 is as follows:

2. Segment information (continued)

Half-year 2016	Bronchitol & Aridol $'000	New Drug Development $'000	Corporate $'000	Total $'000
Total segment revenue	6,005	330	165	6,500
Expenses from ordinary activities				
Employee costs	(2,930)	(974)	(1,073)	(4,977)
Administration & corporate	(252)	(69)	(744)	(1,065)
Rent, occupancy & utilities	(237)	(35)	(272)	(544)
Clinical trials	(5,398)	-	-	(5,398)
Drug development	-	(1,592)	-	(1,592)
Sales, marketing & distribution	(457)	-	-	(457)
Safety, medical and regulatory affairs	(693)	-	-	(693)
Manufacturing purchases	(733)	-	-	(733)
Other	754	(81)	(154)	519
	(9,946)	(2,751)	(2,243)	(14,940)
Adjusted EBITDA	**(3,941)**	**(2,421)**	**(2,078)**	**(8,440)**

Half-year 2015				
Total segment revenue	8,121	420	173	8,714
Expenses from ordinary activities				
Employee costs	(2,816)	(828)	(1,102)	(4,746)
Administration & corporate	(261)	(53)	(751)	(1,065)
Rent, occupancy & utilities	(306)	(38)	(280)	(624)
Clinical trials	(6,278)	(97)	-	(6,375)
Drug development	-	(1,180)	-	(1,180)
Sales, marketing & distribution	(635)	-	-	(635)
Safety, medical and regulatory affairs	(913)	-	-	(913)
Manufacturing purchases	(900)	-	-	(900)
Other	(497)	(71)	207	(361)
	(12,606)	(2,267)	(1,926)	(16,799)
Adjusted EBITDA	**(4,485)**	**(1,847)**	**(1,753)**	**(8,085)**

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.

2. Segment information (continued)

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

	31 December 2016 $'000	31 December 2015 $'000
Adjusted EBITDA	**(8,440)**	(8,085)
Interest revenue	**409**	658
Finance costs		
Unrealised (gains) / losses on financial instruments	**(681)**	(1,313)
Finance lease charges	**(322)**	(347)
Depreciation and amortisation expense	**(1,523)**	(1,516)
Impairment of patents and other assets	**-**	**-**
Redundancy expenses	**-**	(129)
Non recurring legal and business development expenses	**-**	(88)
Share-based payment expenses	**(478)**	(358)
Loss before income tax	**(11,035)**	(11,178)

3. Revenue

Sales revenue		
Sale of goods	**1,690**	3,727
Other revenue		
Clinical trial cost reimbursements	**4,301**	4,394
Interest	**409**	658
	4,710	5,052

4. Other income

Drug Discovery service fees	**330**	420
Licence income	**-**	**-**
R&D tax credits	**-**	**-**
Other income	**180**	173
	510	593

5. Contributed equity

	Parent entity		Parent entity	
	31 December 2016	30 June 2016	**31 December 2016**	30 June 2016
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**318,706,844**	317,154,457	**344,623**	344,623

Movements in ordinary share capital:

Details	**Number of shares**	**Issue price**	**$'000**
Opening balance as at 1 July 2016	317,154,457		344,623
Exercise of employee options	1,370,387	$ - (1)	-
Employee Share Plan	182,000	$ - (2)	-
Closing Balance at 31 December 2016	318,706,844		344,623

(1) These related to options issued under the Performance Rights Plan, which are issued with a zero grant price and zero exercise price.

(2) These shares are issued to eligible employees of the Group for a zero issue price.

(b) 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.

6. Contingent liabilities

The group had contingent liabilities at 31 December 2016 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 31 December 2016 had a total deposits of $1.3 million (2015: $1.9 million) covering a rental bond, corporate credit card and a UK Customs Duty Deferment facility.

7. Events occurring after the end of the reporting period

No matters or circumstance have arisen since 31 December 2016 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.

8. Earnings per share

	31 December 2016 Cents	31 December 2015 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the Company	**(0.03)**	(0.04)
(b) Diluted earnings per share		
Loss attributable to the ordinary owners of the company	**(0.03)**	(0.04)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings / (loss) per share	**317,988,385**	316,712,722

(d) Information concerning the classification of securities

Options

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. Given the entity is currently loss making, the potential ordinary shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation.

Pharmaxis Ltd
Directors' declaration
31 December 2016

In the directors' opinion:

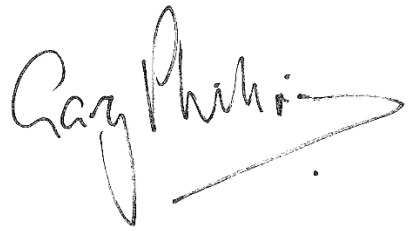
(a) the financial statements and notes set out on pages 9 to 18 are in accordance with the *Corporations Act 2001,* including:

  (i) complying with Accounting Standard AASB 134 "Interim Financial Reporting", 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 31 December 2016 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Pharmaxis Ltd will be able to pay its debts as and when they become due and payable.

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



Gary J Phillips
Director

Sydney
16th February 2017

Independent auditor's review report to the members of Pharmaxis Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pharmaxis Ltd (the Company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Pharmaxis Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pharmaxis Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pharmaxis Ltd is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
16 February 2017