Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2012

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 2012 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 31st December 2012
(Previous corresponding period: Half year ended 31st December 2011)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Up**	**77%**	to	**5,945**
Loss from ordinary activities after tax	**Up**	**6%**	to	**(20,775)**
Net loss for the half year attributable to members	**Up**	**6%**	to	**(20,775)**

Dividends
It is not proposed to pay a dividend

Other Appendix 4D information

	31 December 2012	31 December 2011
Net tangible assets per ordinary share	**$ 0.25**	$ 0.37

Pharmaxis Ltd
Half-Year Report - 31 December 2012

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, Australia 2086

This interim financial statement 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 2012 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 14th February 2013. 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 2012

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 2012.

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)
Alan Robertson (Chief Executive Officer)
William Delaat
John Villiger
Richard van den Broek
Simon Buckingham (appointed 25 July 2012)

Review of operations

Overview

Pharmaxis is a specialty pharmaceutical company with activities spanning product research and development through to manufacture, sales and marketing. The group is producing human healthcare products to treat and manage respiratory diseases.

Bronchitol

The group is developing Bronchitol for the management of chronic obstructive lung diseases including cystic fibrosis, bronchiectasis and chronic bronchitis. Bronchitol is a proprietary formulation of mannitol administered as a dry powder in a convenient hand-held inhaler. It is designed to hydrate the lungs, restore normal lung clearance mechanisms, and help patient's clear mucus more effectively.

Major milestones achieved during the first half of fiscal 2013 included:

- Bronchitol was launched in Europe in June 2012 with sales commencing initially in Germany. The first half year has seen continued sales growth in the German market.
- The National Institute for Health and Clinical Excellence (NICE) in the United Kingdom issued a positive recommendation in its Final Appraisal Determination for Bronchitol in October 2012, clearing the way for reimbursement by the National Health Service. The listing of Bronchitol on individual hospital formularies is expected to be completed in the first calendar quarter of 2013.
- Prosecution of the Company's New Drug Application with the US Food and Drug Administration (FDA) seeking approval for Bronchitol for the management of cystic fibrosis in patients 6 years and older to improve pulmonary function.
- Bronchitol received Australian PBS listing from 1st August 2012 for the treatment of cystic fibrosis in adults and paediatric patients aged over six years as either an add-on therapy to dornase alfa, or in patients intolerant of, or inadequately responsive to, dornase alfa.

Aridol

Aridol is the group's first approved product. It is a simple-to-use airways inflammation test administered as a dry powder in a hand-held inhaler. Doctors can use the results of this test to identify airway hyper-responsiveness – a hallmark of asthma.

The key focus for Aridol is the US Market. Sales commenced in late February 2011 and the Group continues the process of advancing product awareness and market penetration.

Other

The Company completed enrollment of a Phase III clinical trial in patients with Bronchiectasis towards the end of 2011. Over 95 percent of trial participants have now completed and once the remaining subjects have finished the results of the trial will be available. This is expected to occur in the second calendar quarter of 2013.

Financial Highlights	**31 December 2012**	31 December 2011
	$'000	$'000
Revenue from sale of goods	**1,422**	660
Cost of sales	**(509)**	(254)
Gross profit	**913**	406
Interest income	**1,311**	1,032
Other income	**3,212**	1,672
Other expenses from ordinary activities		
Commercial expenses	**(6,644)**	(4,386)
Regulatory, safety & medical affairs expenses	**(3,417)**	(2,303)
Administration expenses	**(3,020)**	(2,615)
Research & development expenses	**(12,690)**	(13,057)
Finance expenses	**(398)**	(358)
Loss before income tax	**(20,733)**	(19,609)
Income tax expense / (credit)	**(42)**	94
Loss for the period	**(20,775)**	(19,515)
Cash and cash equivalents	**64,863**	101,202
Net assets	**90,140**	128,302

Revenue from sale of goods:

The group shipped Aridol to customers in Europe, United States, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2012 were higher than sales in the half-year ended 31 December 2011 which reflected the contributions from the US and higher sales in South Korea.

The company launched Bronchitol in Europe in June 2012. The sales for the period ended 31 December reflects the additional contribution by Bronchitol. Overall gross margin was 64% of sales for the half-year ended 31 December 2012 (2011: 62%), reflecting a change in sales mix between products (Aridol vs Bronchitol) and region mix.

Interest:

The increase in interest income was attributable to the average higher balance of cash and cash equivalents available for investment during the period offset by lower interest rates.

Other income:

Other income includes an accrual for R&D tax incentive credits earned by the company on eligible R&D activities during the period ended 31 December 2012 and an adjustment which increases the R&D tax incentive credits received by the company for the year ended 30 June 2012. The R&D Tax Incentive scheme in Australia enables a 45 per cent refundable tax offset to eligible entities with an aggregated turnover of less than $20 million per annum. Pharmaxis Ltd will fall into this category for the 2013 financial year.

Commercial expenses:

The commercial expenses are focussed on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Commercial expenses for the current half-year were $6.6 million, compared to $4.4 million in the half-year ended 31 December 2011. The increase in commercial expenses is predominantly attributable to the ongoing scale-up of commercial infrastructure and resources to support the launch of Bronchitol in Europe and prepare for the launch of Bronchitol in the United States.

Regulatory, safety & medical affairs expenses:

Regulatory, satefy and medical affairs expenses are directed at obtaining and maintaining product approvals, monitoring and reporting product safety to regulatory agencies and reviewing material provided to clinicians and patients by the Company. This category of expenses for the current half-year were $3.4 million, compared to $2.3 million in the half-year ended 31 December 2011. The increase is attributable to higher regulatory spend associated with the US NDA Regulatory filing and application process.

Administration expenses:

Administration expenses include accounting, administration, recruitment and public company costs. Administration expenses for the current half-year were $3.0 million, compared to $2.6 million in the half-year ended 31 December 2011. The prior half-year was impacted by the reversal of a restructuring accrual following closure of Topigen Pharmaceuticals Inc.

Research & development expenses:

Research & development expenses decreased by approximately $0.4 million in the first half of fiscal 2013 compared to the first half of fiscal 2012. There are four major components to research & development expenses:

1. The drug discovery and development unit accounted for approximately 18 percent of the total research and development expenditure in the current half-year. It is focused on inflammatory and respiratory drug discovery. Expenditure increased by approximately $0.6 million compared to the half-year ended 31 December 2011 reflecting an increased level of external based development work associated with target candidate validation.
2. The clinical unit, which designs and monitors the clinical trials run by the group, accounted for approximately 33 percent of the total research and development expenditure in the current half-year. Expenditure decreased by approximately $1.2 million compared to the half-year ended 31 December 2011, driven by a decrease in costs directed at hospitals and other services related to the conduct and analysis of clinical trials due to a decrease in the number of trials in the active dosing phase.
3. Manufacturing. The manufacturing facility at Frenchs Forest is focused on producing material for commercial sale, clinical trials and regulatory filing related studies, and developing enhanced manufacturing processes. Costs associated with the Aridol and Bronchitol products sold are classified as cost of sales. All other costs are classified as research and development expenditure. Manufacturing accounted for approximately 42 percent of our total research and development expenditure in the current half-year and expenditure was in-line with the half-year ended 31 December 2011.
4. Amortisation of patent costs are a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals Inc and Technology Innovation Ltd in the first half of 2010. Patent amortisation accounted for approximately 7% of our total research and development expenditure and amounted to $882,000 which is consistent with the half year ended 31 December 2011.

Finance expenses:

Finance expenses represent the ongoing finance charge associated with the capitalised finance lease of our manufacturing facility at Frenchs Forest, Sydney.

Income tax expense:

Income tax expense relates to tax on the income generated by the group's subsidiaries which are currently reimbursed for their R&D and local management functions expenditures on a cost plus basis, upon which tax is payable. The tax credit in the half year ended 31 December 2011 reflected a claw-back on US taxes paid in prior periods subsequent to start up losses on the launch of Aridol which the US subsidiary sells in its own right.

Balance Sheet:

The group ended the half-year with $65 million in cash, cash deposits and bank accepted commercial bills. Capital expenditure during the period amounted to $0.2 million.

Shareholders are advised that additional information concerning the group's progress in the quarter ended 31 December 2012 is contained in the December 2012 Quarterly Report to Shareholders, available on the Pharmaxis website.

Events occurring after the end of the reporting period:

On the 31st January 2013, the Company received a negative recommendation from the Pulmonary Allergy Drugs Advisory Committee advising the US Food and Drug Administration (FDA) on the Company's New Drug Application (NDA) for Bronchitol for cystic fibrosis patients in the United States. The NDA process is continuing and the FDA advises its final decision on 18 March 2013.

On the 31st January 2013, the Company announced the signing of a Financing Agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest will invest up to US$40 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the EU and US. As consideration for its investment, NovaQuest will receive payments based upon the US and EU sales revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU and seven years from the launch of Bronchitol in the US. The payments are determined by reference to US and EU sales revenue bands and corresponding annual payment percentages which vary over the term of the agreement to reflect the expected growth in Bronchitol sales, and decrease in the event that the total investment is below the maximum US$40 million.

No other matters or circumstance have arisen since 31 December 2012 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.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Alan D Robertson
Director
14 February 2013

Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Limited for the half year ended 31 December 2012, 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 Limited and the entities it controlled during the period.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
14 February 2013

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Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2012

	Notes	**31 December 2012 $'000**	31 December 2011 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**1,422**	660
Cost of sales		**(509)**	(254)
Gross profit		**913**	406
Other revenue	2	**1,311**	1,032
Other income	3	**3,212**	1,672
Other expenses from ordinary activities	4		
Commercial expenses		**(6,644)**	(4,386)
Regulatory, safety & medical affairs expenses		**(3,417)**	(2,303)
Administration expenses		**(3,020)**	(2,615)
Research & development expenses		**(12,690)**	(13,057)
Finance expenses		**(398)**	(358)
Loss before income tax		**(20,733)**	(19,609)
Income tax expense / (credit)		**(42)**	94
Loss for the period		**(20,775)**	(19,515)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	9	**(6.7)**	(8.2)
Diluted earnings / (loss) per share	9	**(6.7)**	(8.2)

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 2012

	31 December 2012	31 December 2011
	$'000	$'000
Loss for the period	**(20,775)**	(19,515)
Other comprehensive income		
Exchange differences on translation of foreign operations	**-**	(57)
Other comprehensive income for the period, net of tax	**-**	(57)
Total comprehensive income for the period	**(20,775)**	(19,572)
Total comprehensive income for the period is attributable to:		
Owners of Pharmaxis Ltd	**(20,775)**	(19,572)

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 2012

	Notes	**31 December 2012 $'000**	30 June 2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**64,863**	81,475
Trade and other receivables		**3,382**	4,322
Inventories		**1,926**	1,477
Total current assets		**70,171**	87,274
Non-current assets			
Receivables		**2,653**	2,600
Property, plant and equipment		**26,406**	27,683
Intangible assets		**13,262**	14,143
Total non-current assets		**42,321**	44,426
Total assets		**112,492**	131,700
LIABILITIES			
Current liabilities			
Trade and other payables		**6,807**	5,990
Borrowings		**554**	515
Other liabilities		**239**	239
Current tax liabilities		**78**	35
Total current liabilities		**7,678**	6,779
Non-current liabilities			
Borrowings		**11,859**	12,145
Other liabilities		**2,452**	2,571
Provisions		**363**	402
Total non-current liabilities		**14,674**	15,118
Total liabilities		**22,352**	21,897
Net assets		**90,140**	109,803
EQUITY			
Contributed equity	5 (a)	**344,623**	344,388
Reserves		**15,208**	14,331
Accumulated losses		**(269,691)**	(248,916)
Total equity		**90,140**	109,803

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 2012

	Notes	Contributed equity	Reserves	Retained earnings	Total
		$'000	**$'000**	**$'000**	**$'000**
Balance at 30 June 2011		267,610	13,492	(210,272)	70,830
Loss for the period		-	-	(19,515)	(19,515)
Other comprehensive income		-	(57)	-	(57)
Total comprehensive income for the year		-	(57)	(19,515)	(19,572)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		76,584	-	-	76,584
Employee share options		-	460	-	460
		76,584	460	-	77,044
Balance at 31 December 2011		344,194	13,895	(229,787)	128,302
Balance at 30 June 2012		**344,388**	**14,331**	**(248,916)**	**109,803**
Loss for the period		**-**	**-**	**(20,775)**	**(20,775)**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	-	**(20,775)**	**(20,775)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	5(a)	**235**	**-**	**-**	**235**
Employee share options		**-**	**877**	**-**	**877**
		235	**877**	**-**	**1,112**
Balance at 31 December 2012		**344,623**	**15,208**	**(269,691)**	**90,140**

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 2012

	31 December 2012 $'000	31 December 2011 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**1,538**	863
Payments to suppliers and employees (inclusive of goods and services tax)	**(23,391)**	(21,114)
	(21,853)	(20,251)
R&D tax incentive	**4,593**	-
Interest received	**1,311**	1,032
Income taxes refunded	**1**	141
Net cash outflow from operating activities	**(15,948)**	(19,078)
Cash flows from investing activities		
Payments for plant and equipment	**(216)**	(45)
Proceeds from disposal of plant & equipment	**1**	106
Payments for intangible assets	**(43)**	(15)
Net cash (outflow)/inflow from investing activities	**(258)**	46
Cash flows from financing activities		
Net proceeds from issues of shares	**235**	76,499
Finance lease payments	**(646)**	(631)
Net cash (outflow)/inflow from financing activities	**(411)**	75,868
Net (decrease)/increase in cash and cash equivalents	**(16,617)**	56,836
Cash and cash equivalents at the beginning of the financial year	**81,475**	44,343
Effects of exchange rate changes on the balance of cash held in foreign currencies	**5**	23
Cash and cash equivalents at the end of the financial period	**64,863**	101,202

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 2012 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 2012 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 2012 reporting periods and the Group is finishing their assessment of these. At this stage the Group does not believe that the impact of these new standards and interpretations will be significant.

2. Revenue

	31 December 2012 $'000	31 December 2011 $'000
Sales revenue		
Sale of goods	**1,422**	660
Other revenue		
Interest	**1,311**	1,032

3. Other income

R&D tax credits	**3,193**	1,561
Service income	**19**	111
	3,212	1,672

4. Expenses

	31 December 2012 $'000	31 December 2011 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**619**	639
Computer equipment	**116**	131
Leased building and improvements	**758**	759
Total depreciation	**1,493**	1,529
Amortisation		
Patents	**882**	877
Trademarks	**3**	3
Software	**39**	56
Total amortisation	**924**	936

4. Expenses (continued)

	31 December 2012	31 December 2011
	$'000	$'000
Net gain on disposal of plant and equipment	**1**	(55)
Rental expense relating to operating leases	**564**	745
Net foreign exchange gains	**7**	(12)
Employee and contractor benefits expense		
Defined contribution superannuation expense	**526**	436
Other employee and contractor benefits expenses	**10,835**	8,595

5. Contributed equity

	Parent entity		**Parent entity**	
	31 December 2012	30 June 2012	**31 December 2012**	30 June 2012
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**308,543,389**	307,630,989	**344,623**	344,388

Movements in ordinary share capital:

Details	**Number of shares**	**Issue price**	**$'000**
Opening balance as at 1 July 2012	307,630,989		344,388
Exercise of employee options	835,000	$ 0.258 (1)	235
Employee Share Plan	77,400		-
Closing Balance at 31 December 2012	308,543,389		344,623

(1) The issue price on exercise of employee options represents a weighted average issue price for the respective financial period.

(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 2012 in respect of:

Guarantees

The company's bankers have issued bank guarantees of $1,070,435 in relation to rental bond deposits for which no provision has been made in the accounts. The rental bond deposits cover the leased building which has been accounted for as a finance lease and other leased premises accounted for as operating leases. These bank guarantees are secured by security deposits held at the bank.

The company's bankers have provided a corporate credit card facility which is secured by a deposit held at the bank totalling $65,274.

The company's bankers have issued a bank guarantee of GBP180,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis Pharmaceuticals Limited. The company's bankers have also issued a bank guarantee of GBP140,000 in relation to a UK Customs Duty Deferment facility provided by an overseas affiliate of the banker to Pharmaxis Ltd. These bank guarantees are secured by a deposit held at the bank.

The company's bankers have issued a bank guarantee of USD175,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis, Inc. This bank guarantee is secured by a deposit held at the bank.

7. Events occurring after the end of the reporting period

On the 31st January 2013, the Company received a negative recommendation from the Pulmonary Allergy Drugs Advisory Committee advising the US Food and Drug Administration (FDA) on the Company's New Drug Application (NDA) for Bronchitol for cystic fibrosis patients in the United States. The NDA process is continuing and the FDA advises its final decision on 18 March 2013.

On the 31st January 2013, the Company announced the signing of a Financing Agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest will invest up to US$40 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the EU and US. As consideration for its investment, NovaQuest will receive payments based upon the US and EU sales revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU and seven years from the launch of Bronchitol in the US. The payments are determined by reference to US and EU sales revenue bands and corresponding annual payment percentages which vary over the term of the agreement to reflect the expected growth in Bronchitol sales, and decrease in the event that the total investment is below the maximum US$40 million.

No other matters or circumstance have arisen since 31 December 2012 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. Financial reporting by segments

The group operates predominantly in one industry. The principal activities of the group are the research, development and commercialisation of pharmaceutical products. The group operates predominantly in one geographical area, being Australia.

9. Earnings per share

	31 December 2012 Cents	31 December 2011 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the company	**(6.7)**	(8.2)
(b) Diluted earnings per share		
Loss attributable to the ordinary owners of the company	**(6.7)**	(8.2)
(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	**308,043,300**	238,246,281

(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. The options have not been included in the determination of basic earnings per share. 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 2012

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 15 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 31 December 2012 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.

Alan D Robertson

Director

Sydney
14 February 2013

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pharmaxis Limited, which comprises the consolidated balance sheet as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Pharmaxis Limited (the consolidated entity). The consolidated entity comprises both Pharmaxis Limited (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 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 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 at31 December 2012 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 Limited, 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*.

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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 Limited 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 2012 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
14 February 2013