Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2013

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 2013 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 2013
(Previous corresponding period: Half year ended 31st December 2012)

Results for announcement to the market

				A$'000
Revenue from sale of goods	**Up**	**67.5%**	to	**2,382**
Other revenue from ordinary activities	**Down**	**33.9%**	to	**2,988**
Total revenue from ordinary activities	**Down**	**9.7%**	to	**5,370**
Loss from ordinary activities after tax	**Down**	**0.4%**	to	**(20,698)**
Net loss for the half year attributable to members	**Down**	**0.4%**	to	**(20,698)**

Dividends
It is not proposed to pay a dividend

Other Appendix 4D information

	31 December 2013	31 December 2012
Net tangible assets per ordinary share	**$ 0.12**	$ 0.25

Pharmaxis Ltd
Half-Year Report - 31 December 2013

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 2013 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 19th February 2014. 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 2013

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 2013.

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
John Villiger (retired 19th September 2013)
Richard van den Broek (retired 19th September 2013)

Review of operations

Overview

Pharmaxis is a specialty pharmaceutical company with activities spanning product research and development through to manufacture, sales and marketing. The Company is producing human healthcare products to treat and manage respiratory diseases and is most advanced in the development of products for asthma, cystic fibrosis and bronchiectasis. The Company also has an active research and development program designed to produce a series of products for world markets over the coming years.

Bronchitol

Bronchitol is designed to restore normal lung hydration, improve lung function and to help relieve the mucus burden in the lungs of patients suffering from chronic respiratory conditions. Pharmaxis has to date received marketing approval for Bronchitol:

- in Australia (February 2011) 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.
- in the European Union (April 2012) for the treatment of cystic fibrosis in adults as an add on therapy to best standard of care.

Key developments during the half-year ended 31 December 2013 were:

- The Company has been focused on increasing market penetration and adherence rates within the key markets of Germany and the United Kingdom, and progressing pricing and reimbursement across other key territories. The Company has seen continued steady sales growth in the UK market following new pricing guidelines becoming effective in April 2013. Sales in Germany have not shown expected growth and the Company therefore re-evaluated its approach to the market in the December 2013 and has subsequently implemented a revised sales and marketing effort.
- On the 18th July 2013, the Company announced it had received approval for simplified access to Bronchitol for the treatment of cystic fibrosis under the Australian government's Pharmaceutical Benefits Scheme (PBS). The new PBS listing removes the restrictive requirement for patients to demonstrate a 10% increase in a spirometric measure of lung function at 4 weeks (known as the '10% Increase Rule') in order to secure continued PBS reimbursement. This rule has been replaced with a new set of clinician and patient determined criteria which are intended to allow flexibility in clinical decision making.
- On the 29th August 2013, the Company announced it would scale back resources and investment dedicated to the launch of Bronchitol in France due to delays in reaching an agreement with the French Healthcare Products Pricing Committee on a reimbursed price for the cystic fibrosis treatment.
- In December 2013, the Company announced that the Scottish Medicines Consortium (SMC) had accepted Bronchitol for use by the National Health Service in Scotland. Bronchitol is the first non antibiotic therapy to be accepted by the SMC for the treatment of cystic fibrosis.

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.

Pharmaxis has to date received marketing approval of Aridol in Australia, South Korea, Singapore, Malaysia, Switzerland, Germany, France, the United Kingdom, Italy, the Netherlands, Denmark, Greece, Spain, Finland, Ireland, Norway, Sweden, Portugal and the United States.

As outlined in the review of operations in the 2013 Statutory Annual Report, on the 28th May 2013, the FDA issued an import ban on the entry of Aridol into the United States pending resolution of violations of current good manufacturing practices in the packaging of the Aridol capsules undertaken by the Company's outsourced contract packaging supplier. The import ban has constrained the sales growth of Aridol in the United States and lifting of the ban is pending the FDA's site inspection to ensure the required corrective actions have been satisfactorily implemented.

Other

The Company has been focused on implementing its announced revised business plan, aimed at delivering significant reductions in the group's expense base and increased focus on partnering strategies to grow the value of the Company's assets. The cost reduction initiatives have been implemented in this half-year period.

On the 30th October 2013, the Company announced it had elected to receive the full US$40 million allowed for under the Financing Agreement signed in January 2013 with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest). The initial investment of US$20 million was made by NovaQuest in February 2013 and an additional US$20 million investment is subject to Pharmaxis meeting certain commercial and regulatory performance criteria including randomisation of the first patient into a US pivotal Phase 3 clinical trial by 17th October 2014. The additional investment will be paid in four equal instalments of US$5 million, each three months apart.

Financial Highlights	**31 December 2013**	31 December 2012
	$'000	$'000
Revenue from sale of goods	**2,382**	1,422
Cost of sales	**(876)**	(509)
Gross profit	**1,506**	913
Interest income	**1,010**	1,311
Other income	**1,978**	3,212
Other expenses from ordinary activities		
Sales & marketing expenses	**(5,196)**	(6,632)
Safety, medical & regulatory expenses	**(2,191)**	(3,417)
Available manufacturing capacity	**(2,401)**	-
Research & development expenses		
Bronchitol	**(4,342)**	(9,969)
New drug development	**(2,151)**	(2,721)
Administration expenses	**(4,078)**	(2,990)
Finance & royalty expenses	**(4,772)**	(440)
Loss before income tax	**(20,637)**	(20,733)
Income tax expense	**(61)**	(42)
Loss for the period	**(20,698)**	(20,775)
Cash and cash equivalents	**50,685**	64,863
Net assets	**48,304**	90,140

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 2013 were higher than sales in the half-year ended 31 December 2012 which reflected higher sales in South Korea and Europe, offset by a fall in sales in the United States as a result of the import ban as outlined above.

The company launched Bronchitol in Europe in June 2012. The sales for the period ended 31 December reflects the growing contribution by Bronchitol, initially in Germany, the United Kingdom and Australia. Overall gross margin was 63% of sales for the half-year ended 31 December 2013 (2012: 64%), reflecting a change in sales mix between products (Aridol vs. Bronchitol) and sales channel mix (distributor vs. direct).

Interest

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 includes an accrual for R&D tax incentive credits earned by the company on eligible R&D activities during the period ended 31 December 2013 and an adjustment which increases the R&D tax incentive credits actually received by the Company for the year ended 30 June 2013. 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 2014 financial year. The decrease in R&D tax credit income for the half-year ended 31 December 2013 compared to the corresponding period in 2012 reflects a lower eligible R&D base spend.

Sales and marketing expenses

Sales & marketing expenses are primarily focussed on developing and delivering the commercial strategy and capability to sell Bronchitol globally. Limited resources are directed at the sale of Aridol. Sales & marketing expenses for the current half-year were $5.2 million, compared to $6.6 million in the half-year ended 31 December 2012. The decrease in sales & marketing expenses is attributable to the scale-down of the company's US cost base following the implementation of the revised business plan and re-allocation of costs as noted below to Administration.

Safety, medical and regulatory affairs expenses

Safety, medical and regulatory affairs expenses are 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 for the current half-year were $2.2 million, compared to $3.4 million in the half-year ended 31 December 2012. During the half-year ended 2012 the Company was progressing its US Bronchitol NDA regulatory filing and application process. During the current half-year regulatory spend was primarily related to routine licence maintenance and there has been a reduction in the employee base in line with the scale down of our US presence. In addition, the Company has a post marketing commitment as part of its European Union Bronchitol marketing authorisation 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 are reflected in the expenses of the medical group.

Available manufacturing capacity

During the financial year ended 30 June 2013, the manufacturing facility at French's Forest continued to be focused on producing material for clinical trials, producing and analysing material in support of regulatory filings and developing enhanced manufacturing products and processes. Manufacturing expenses for the half-year ended 2012, therefore, were classified as research and development expenditure, net of costs associated with the Aridol and Bronchitol products sold which are classified as cost of sales. From July 2013 the manufacturing facility was substantially complete and validated for all markets, with a manufacturing capacity excess to current requirements. For fiscal 2014, manufacturing costs are classified as either cost of sales, research & development (as discussed below) or available manufacturing capacity. This represents the current fixed cost base not required for the current level of production.

Research and development expenses

Research and development expenses are classified into two core components as follows.

Bronchitol development expenses

Bronchitol related research and development expenses were $4.3 million in the half-year ended 31 December 2013 compared to $10 million in the half-year ended 31 December 2012, representing a decrease of $5.7 million. There are three contributors to this group of expenses:

1. The clinical unit, which designs and monitors the clinical trials run by the group, accounted for approximately 65 percent of the total Bronchitol related research and development expenditure in the 2013 period. Expenditure decreased by approximately $1.4 million compared to 2012. This decrease was driven by a reduction in employee based costs following implementation of the revised business plan combined with 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. During the six months ended 31 December 2012, the clinical group was focused on completing the large Phase 3 Bronchiectasis trial which reported in April 2013. The focus in the six months ended 31 December 2013 has been targeted at progressing the substantially smaller Phase 2 European paediatric clinical trial evaluating Bronchitol in cystic fibrosis.

2. As outlined above, manufacturing expenses for the half-year ended 31 December 2012, were mainly classified as research and development expenditure. For fiscal 2014, manufacturing costs allocated to research & development relate entirely to product produced for clinical trials, costs associated with ongoing manufacturing process validation and costs incurred on development of our new inhalation device. Manufacturing accounted for approximately 26 percent of Bronchitol related research and development expenditure in the half-year ended 31 December 2013 compared to 83 percent in the corresponding period in 2012.

3. Amortisation of patent costs is a component of research and development. Patent amortisation is related to our new orbital device and accounted for approximately 9 percent of Bronchitol research and development expenditure in the half-year ended 31 December 2013.

New drug development expenses

New drug development related research and development expenses were $2.2 million in the 2013 half year period compared to $2.7 million in the 2012 half year period, representing a decrease of $0.5 million. The two contributors to this group of expenses are:

1. The drug discovery and development unit accounted for approximately 66 percent of the new drug development expenditure. It is focused on inflammatory and respiratory drug discovery. Expenditure decreased by approximately $0.8 million compared to 2012 reflecting a reduced level of external based development work associated with target candidate validation and constrained in-house expenditure.

2. Amortisation of patent costs is a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals, Inc in the first half of 2010. Patent amortisation accounted for approximately 34 percent of new drug development expenditure in the six months to 31 December 2013.

Both Bronchitol and new drug development expenses are the basis for the R&D Tax Incentive income referenced above.

Administration expenses

Administration expenses include accounting, compliance, public company costs and operational effectiveness. Administration expenses were $4.1 million in the 2013 half-year period and $3.0 million in 2012. The increase of $1.1 million has been driven by a combination of the transfer to Administration of the Group's project/resource management capability, previously included in sales and marketing, and the full allocation of share based payments expense (totalling $1.0 million) to Administration, previously costed on a department basis. These increases have been partly offset by cost savings flowing from implementation of the groups revised business plan.

Finance & royalty expenses

Finance and royalty expenses were $4.8 million in the 2013 half-year period compared to $0.4 million in 2012. There are three components to this group of expenses.

1. Finance charges associated with the capitalised finance lease of our corporate manufacturing facility at French's Forest, Sydney.

2. Accrued finance costs up to 31 December 2013 in relation to the NovaQuest financing agreement. Pursuant to the agreement, finance related cash payments commence in the second half of fiscal 2014, however Australian Accounting Standards require the finance costs to be accrued from the commencement of the contract term, being 31 January 2013. There was no comparable cost in 2012.

3. The Company previously licensed a series of patents from the Sydney South West Area Health Service, or SSWAHS, covering new treatments for chronic lung diseases and for the measurement of lung function. The license agreement with the SSWAHS requires the Company to pay royalties 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 SSWAHS license. During the 2013 half-year royalties were payable on sales of both Aridol and Bronchitol. In the 2012 half-year royalties were only payable on sales of Aridol.

Restructure expenses

As outlined in the review of operations in the 2013 Statutory Annual report, the Company had implemented a business review and cost saving program. The restructuring expense booked in the second half of fiscal 2013 related to committed obligations that the Company had announced and implemented related to employee redundancies and facility closures and consolidations. These obligations have been progressively settled during the half year ended 31 December 2013.

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 sales and marketing expenditures on a cost plus basis, upon which tax is payable.

Balance Sheet

The group ended the half-year with $50.7 million in cash, cash deposits and bank accepted commercial bills.

Shareholders are advised that additional information concerning the group's progress in the quarter ended 31 December 2013 is contained in the December 2013 Quarterly Investor Briefing, available on the Pharmaxis website.

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 7.

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.

Gary J Phillips
Director
19th February 2014

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Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half-year ended 31 December 2013, 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
19 February 2014

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Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2013

	Notes	**31 December 2013** **$'000**	31 December 2012 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**2,382**	1,422
Cost of sales		**(876)**	(509)
Gross profit		**1,506**	913
Other revenue	2	**1,010**	1,311
Other income	3	**1,978**	3,212
Other expenses from ordinary activities	4		
Sales & marketing expenses		**(5,196)**	(6,632)
Safety, medical & regulatory expenses		**(2,191)**	(3,417)
Available manufacturing capacity		**(2,401)**	-
Research & development expenses			
Bronchitol		**(4,342)**	(9,969)
New drug development		**(2,151)**	(2,721)
Administration expenses		**(4,078)**	(2,990)
Finance & royalty expenses		**(4,772)**	(440)
Loss before income tax		**(20,637)**	(20,733)
Income tax expense		**(61)**	(42)
Loss for the period		**(20,698)**	(20,775)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	9	**(6.7)**	(6.7)
Diluted earnings / (loss) per share	9	**(6.7)**	(6.7)

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 2013

	31 December 2013	31 December 2012
	$'000	$'000
Loss for the period	**(20,698)**	(20,775)
Other comprehensive income		
Exchange differences on translation of foreign operations	**78**	-
Other comprehensive income for the period, net of tax	**78**	-
Total comprehensive income for the period	**(20,620)**	(20,775)
Total comprehensive income for the period is attributable to:		
Owners of Pharmaxis Ltd	**(20,620)**	(20,775)

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 2013

	Notes	31 December 2013 $'000	30 June 2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**50,685**	63,943
Trade and other receivables		**3,176**	5,823
Inventories		**2,411**	2,171
Total current assets		**56,272**	71,937
Non-current assets			
Receivables		**2,611**	2,799
Property, plant and equipment		**23,735**	25,115
Intangible assets		**11,320**	12,429
Total non-current assets		**37,666**	40,343
Total assets		**93,938**	112,280
LIABILITIES			
Current liabilities			
Trade and other payables		**4,132**	6,116
Borrowings		**594**	594
Other liabilities		**239**	239
Provisions		**936**	1,618
Current tax liabilities		**120**	46
Total current liabilities		**6,021**	8,613
Non-current liabilities			
Borrowings		**11,274**	11,560
Other liabilities		**28,000**	23,829
Provisions		**339**	383
Total non-current liabilities		**39,613**	35,772
Total liabilities		**45,634**	44,385
Net assets		**48,304**	67,895
EQUITY			
Contributed equity	5 (a)	**344,623**	344,623
Reserves		**16,832**	15,725
Accumulated losses		**(313,151)**	(292,453)
Total equity		**48,304**	67,895

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 2013

	Notes	Contributed equity	Reserves	Retained earnings	Total
		$'000	**$'000**	**$'000**	**$'000**
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		235	-	-	235
Employee share options		-	877	-	877
		235	877	-	1,112
Balance at 31 December 2012		344,623	15,208	(269,691)	90,140
Balance at 30 June 2013		**344,623**	**15,725**	**(292,453)**	**67,895**
Loss for the period		**-**	**-**	**(20,698)**	**(20,698)**
Other comprehensive income		**-**	**78**	**-**	**78**
Total comprehensive income for the year		**-**	**78**	**(20,698)**	**(20,620)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	5(a)	**-**	**-**	**-**	**-**
Employee share options		**-**	**1,029**	**-**	**1,029**
		-	**1,029**	**-**	**1,029**
Balance at 31 December 2013		**344,623**	**16,832**	**(313,151)**	**48,304**

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 2013

	31 December 2013 $'000	31 December 2012 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**2,583**	1,538
Payments to suppliers and employees (inclusive of goods and services tax)	**(21,120)**	(23,391)
	(18,537)	(21,853)
R&D tax incentive	**4,911**	4,593
Interest received	**1,010**	1,311
Income taxes refunded	**13**	1
Net cash outflow from operating activities	**(12,603)**	(15,948)
Cash flows from investing activities		
Payments for plant and equipment	**(56)**	(216)
Proceeds from disposal of plant & equipment	**11**	1
Payments for intangible assets	**(35)**	(43)
Net cash outflow from investing activities	**(80)**	(258)
Cash flows from financing activities		
Net proceeds from issues of shares	**-**	235
Finance lease payments	**(676)**	(646)
Net cash outflow from financing activities	**(676)**	(411)
Net decrease in cash and cash equivalents	**(13,359)**	(16,617)
Cash and cash equivalents at the beginning of the financial year	**63,943**	81,475
Effects of exchange rate changes on the balance of cash held in foreign currencies	**101**	5
Cash and cash equivalents at the end of the financial period	**50,685**	64,863

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 2013 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 2013 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 2013 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 2013 $'000	31 December 2012 $'000
Sales revenue		
Sale of goods	**2,382**	1,422
Other revenue		
Interest	**1,010**	1,311

3. Other income

R&D tax credits	**1,914**	3,193
Service income	**64**	19
	1,978	3,212

4. Expenses

	31 December 2013 $'000	31 December 2012 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**594**	619
Computer equipment	**96**	116
Leased building and improvements	**758**	758
Total depreciation	**1,448**	1,493
Amortisation		
Patents	**1,110**	882
Trademarks	**3**	3
Software	**30**	39
Total amortisation	**1,143**	924

4. Expenses (continued)

	31 December 2013	31 December 2012
	$'000	$'000
Net (gain) / loss on disposal of plant and equipment	**(11)**	1
Rental expense relating to operating leases	**457**	564
Net foreign exchange (gains) / losses	**(94)**	7
Employee salaries and benefits expense		
Defined contribution superannuation	**484**	526
Share-based payment expenses	**1,029**	876
Contractor benefits expenses	**1,755**	2,079
Other employee benefits expenses	**6,912**	7,966

5. Contributed equity

	Parent entity		**Parent entity**	
	31 December 2013	30 June 2013	**31 December 2013**	30 June 2013
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**309,010,389**	308,543,389	**344,623**	344,623

Movements in ordinary share capital:

Details	**Number of shares**	**Issue price**	**$'000**
Opening balance as at 1 July 2013	308,543,389		344,623
Exercise of employee options	5,000	$ - (1)	-
Employee Share Plan	462,000		-
Closing Balance at 31 December 2013	309,010,389		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.

(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 2013 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 USD120,000 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

No matters or circumstance have arisen since 31 December 2013 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 2013 Cents	31 December 2012 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the company	**(6.7)**	(6.7)
(b) Diluted earnings per share		
Loss attributable to the ordinary owners of the company	**(6.7)**	(6.7)
(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	**308,698,335**	308,043,300

(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 2013

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 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 2013 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
19th February 2014

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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, which comprises the balance sheet as at 31 December 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Pharmaxis Ltd (the consolidated entity). The consolidated entity comprises the company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives 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 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 2013 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*.

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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 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 2013 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
19 February 2014