

Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2017

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 2017 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.

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Pharmaxis Ltd
ABN 75 082 811 630

Reporting period: Half year ended 31 December 2017
(Previous corresponding period: Half year ended 31 December 2016)

Results for announcement to the market

		<u>A\$'000</u>		<u>A\$'000</u>
Revenue from sale of goods	Up	761	to	2,451
Other revenue from ordinary activities	Up	<u>23,673</u>	to	<u>28,893</u>
Total revenue from ordinary activities	Up	<u>24,434</u>	to	<u>31,344</u>
Profit from ordinary activities after tax	Up	16,955	to	5,920
Net profit for the year attributable to members	Up	16,955	to	5,920

Dividends

It is not proposed to pay a dividend.

Other Appendix 4D information

	<u>31 December 2017</u>	<u>31 December 2016</u>
Net tangible assets per ordinary share	\$ 0.031	\$ 0.032

Pharmaxis Ltd

Half-Year Report - 31 December 2017

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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 2017 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 15 February 2018. 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 2017

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 2017.

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
Kathleen Metters

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

Overview

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

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

The Company's development pipeline is centred on its expertise in amine oxidase chemistry and includes a series of Lysyl Oxidase Inhibitors that entered clinical development in 2017 targeting fibrotic diseases of the liver, heart, kidney and lung. In May 2015, Boehringer Ingelheim acquired the Pharmaxis investigational drug BI 1467335 (formerly known as PXS-4728A), a potent inhibitor of Semicarbazide-Sensitive Amine Oxidase (SSAO), to develop it for the treatment of the liver-related condition Non-alcoholic Steatohepatitis (NASH) and other inflammatory diseases. Boehringer commenced a phase 2a clinical trial in NASH in August 2017 and a phase 2a trial in diabetic retinopathy in January 2018.

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

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

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

New drug development

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

Anti-inflammatory drug BI 1467335

This drug was sold to Boehringer Ingelheim in May 2015. Under the terms of our agreement Boehringer has total responsibility for the development program and is required to make milestone payments to Pharmaxis as BI 1467335 progresses towards approval, as well as other sales related payments post approval.

In August 2017 a phase 2a clinical trial in NASH commenced dosing subjects, triggering a milestone payment to Pharmaxis of €18 million (approximately A\$27 million). In September 2017 Boehringer initiated a phase 2a clinical trial in diabetic retinopathy. This second trial dosed its first patient in January 2018 triggering a milestone payment to Pharmaxis of €10 million (approximately A\$15 million).

Both phase 2a trials are scheduled to report in the second half of the 2018 calendar year.

Anti-fibrotic program targeting the LOXL2 enzyme

The Pharmaxis drug discovery group has developed a small number of selective inhibitors to the lysyl oxidase type 2 enzyme (LOXL2) utilising the amine oxidase platform that delivered BI 1467335. LOXL2 is important in NASH, kidney fibrosis, the fatal lung disease idiopathic pulmonary fibrosis (IPF) and also plays a role in some solid cancers. During the half year the Company progressed the program into phase 1 clinical trials.

The LOXL2 program had been developed in collaboration with UK biotechnology company Synairgen plc (LSE: SNG) since August 2015. In December 2017 Synairgen and Pharmaxis announced significant changes to the collaboration agreement. Pharmaxis assumed full scientific and commercial control of the collaboration and substantially increased its interest in the program in return for a one-off payment to Synairgen.

Changes in the collaboration financial arrangements include:

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2017

- A significantly increased Pharmaxis share of any partnering deal for the LOXL2 program in fibrotic diseases to 83%.
- Full funding responsibility for the ongoing collaboration program assumed by Pharmaxis.
- Pharmaxis made a cash payment to Synairgen of £5 million (approximately A\$9m).

After taking control Pharmaxis immediately doubled the program scope to encompass two lead candidates with unique properties that it intends to take to the end of phase 1 trials with additional toxicology data to be delivered in parallel to enable the lead candidates to be phase 2 ready by mid-2018.

Large pharma companies are interested in the Pharmaxis program as it is one of the very few truly anti-fibrotic mechanisms in clinical development. A number of pharma companies are well advanced in confidential due diligence of the LOXL2 program.

Pharmaxis plans to partner the LOXL2 program in the second half of 2018 after the phase 1 trials report.

Other research initiatives

Other earlier stage drug development programs and initiatives include:

- The LOX inhibitor program which has potential anti-fibrotic applications in scarring and severe fibrotic conditions commenced formal preclinical toxicology studies with the aim of being phase 1 ready by the end of calendar 2018.
- The SSAO/MPO program which is developing a dual inhibitor with potential anti-inflammatory application in respiratory and cardiovascular disease also commenced formal preclinical toxicology studies with the aim of being phase 1 ready by the end of calendar 2018.
- During the half year the Company further strengthened its drug discovery capability with the appointment of Dr Dieter Hamprecht as the Head of Chemistry in the Pharmaxis Drug Discovery team, reporting to Department Head Dr Wolfgang Jarolimek. Dr Hamprecht was previously the Managing Director of Boehringer Ingelheim's Research group in Milan and has a distinguished career as a medicinal chemist having held senior positions at GSK and Boehringer with 37 publications and 44 patents to his name. Pharmaxis also expanded its Scientific Advisory Board during the quarter with the appointment of Professor Darren Kelly and Dr Kathleen Metters. Professor Kelly is the Associate Dean (Innovation and Enterprise, MDHS) at The University of Melbourne, the Director of Innovation and Enterprise at the Centre for Eye Research Australia (CERA) and Director of Biomedical Research in the Department of Medicine, St Vincent's Hospital Melbourne. Dr Metters was appointed as a non-executive director to the Pharmaxis Board in June 2017, and was subsequently appointed to the Scientific Advisory Board. Dr Metters has more than 25 years of experience in the discovery and development of novel therapies for the treatment of serious diseases. She spent 22 years with Merck & Co. including a period as senior vice president and head of Worldwide Basic Research and leading their External Discovery and Preclinical Sciences. She subsequently was appointed as President and Chief Executive Officer for Lycera Corp., a biopharmaceutical company pioneering innovative approaches to novel oral medicines for treatment of autoimmune diseases and cancer.

Approved products - Bronchitol for cystic fibrosis

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

- Pharmaxis has partnered its work on Bronchitol for the United States with Chiesi Group (Chiesi), a global pharmaceutical company headquartered in Parma, Italy. Subsequent to the finalisation by Pharmaxis of the complete study report in relation to the international multicentre clinical trial of Bronchitol (CF303) reported in June 2017, Chiesi are now completing and filing the New Drug Application with the FDA. Subject to approval, Pharmaxis will receive a US\$10 million milestone on the commercial launch of Bronchitol in the US, mid to high teen percentage royalties and will be the exclusive supplier of Bronchitol for the US market. Under the terms of the agreement Chiesi has responsibility for commercialisation of Bronchitol in the United States.
- In the EU, Pharmaxis has appointed Chiesi as its exclusive distributor for the markets of the UK, Ireland, Italy and Germany. During the 2016 financial year Chiesi built up its initial inventory levels of Bronchitol and in the 2017 financial year allowed these levels to reduce, resulting in decreased sales recorded by Pharmaxis in 2017. As expected Chiesi purchased Bronchitol again in the current half year. Unit sales of Bronchitol by Chiesi in the UK and Germany for the half year were at the same level as the December 2016 half year.
- Pharmaxis received marketing approval of Bronchitol in Russia in September 2016 for the treatment of both paediatric and adult CF patients. Russia is the largest market accessed to date for Bronchitol. Pharmaxis has been navigating the process to have Bronchitol reimbursed nationally. Whilst the national reimbursement process is progressing, the Company has been successful in obtaining approval for a few hundred patients to receive Bronchitol on an individual reimbursement basis and the first tender of Bronchitol in relation to these patients is scheduled for the first half of

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2017

calendar 2018.

- Bronchitol is sold in Australia by Pharmaxis. Following the August 2017 positive recommendation from the Australian Pharmaceutical Benefits Advisory Committee, the Australian government announced extended reimbursement of Bronchitol. Effective from 1 January 2018, eligible people with cystic fibrosis who are taking Pulmozyme® (dornase alfa), another CF medication, will be able to add reimbursed Bronchitol to their treatment regime.

Approved products - Aridol

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

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

Sales of Aridol kits for the half year ended 31 December 2017 increased 14 percent in Australia, decreased by 10 percent in South Korean, while European sales decreased by 7 percent.

Financial Highlights

Revenue from sale of goods

Sales for the half year ended 31 December 2017 were \$2.5 million, an increase of \$0.8 million on the 31 December 2016 half-year. The increase is the result of Chiesi's ordering patterns normalising following a build up of their Bronchitol inventory levels during the year ended 30 June 2016 and subsequent lower levels of purchases from Pharmaxis in the half year ended 31 December 2016.

The group sold Aridol to customers in Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2017 were \$980,000 in line with the half year ended 31 December 2016.

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 \$27.0 million received from Boehringer Ingelheim upon commencement of a phase 2 clinical trial in NASH of the drug they acquired from Pharmaxis in 2015.

Other revenue also includes an amount of \$1.2 million (2016: \$4.3 million) representing the recognition of R&D cost reimbursements for the half-year ended 31 December 2017 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 3 pivotal clinical trial in cystic fibrosis adults aged 18 years and over, up to a maximum of US\$22.0 million. As the trial was fully reported in the current half year all revenue has now been recognised.

Other income includes an increase of \$161,000 in the R&D tax credit claim for the 2017 financial year.

The remaining component of other income includes an amount of \$228,000 representing the sub-leasing of parts of the Company's Frenchs Forest premises.

Employee costs

Employee related expenses were \$5.6 million in the half-year ended 31 December 2017 compared to \$5.5 million in the half-year ended 31 December 2016. Employee costs include share based payments (non-cash) totalling \$0.6 million in the 2017 half year period, compared to \$0.5 million in the corresponding 2016 half year period. At 31 December 2017 the Company employed 67 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 \$1.3 million in the 2017 half-year period and \$1.1 million in 2016.

Clinical trials

Clinical trials expenses were \$1.4 million in the half-year ended 31 December 2017 compared to \$5.4 million in the half-year ended 31 December 2016, a decrease of \$4.0 million. Clinical trial expenses relate to external costs incurred and are predominately driven by fees paid to the clinical research organisations contracted to manage the trials in multiple

Pharmaxis Ltd**Directors' Report**

For the half-year ended 31 December 2017

jurisdictions, and costs paid to participating site investigators. The decrease in expense is the result of the completion of the Company's US Phase 3 pivotal clinical trial, offset by the commencement of Phase 1 trials for the Company's LOXL2 program.

Drug development

Drug development expenses were \$3.4 million for the half-year ended 31 December 2017 compared to \$1.6 million in the half-year ended 31 December 2016. The drug development expenses predominantly consist of external costs paid to contract research organisations to support the development and selection of new drug candidates that are then progressed through the pre-clinical development path. Drug development expenses also include the costs incurred in running the Company's research laboratory (excluding any allocation of lease and utilities).

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 in line with the half-year ended 31 December 2016. 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 \$0.4 million, a decrease of \$0.3 million on the 2016 half year spend. The decrease was mainly due to the completion of a 5 year observational safety study of Bronchitol in the United Kingdom required as a condition of the Company's EU Bronchitol approval. There were no costs incurred for this study during the six months ended 31 December 2017 (2016: \$0.3 million).

Manufacturing purchases

Manufacturing purchases were \$0.8 million in the half-year ended 31 December 2017 compared to \$0.7 million in the half-year ended 31 December 2016. This group of costs includes raw material and consumable purchases, costs associated with running the production and quality control processes and repair & maintenance costs associated with manufacturing equipment and our manufacturing facility.

Other

Other expenses was a loss of \$0.4 million in the half-year ended 31 December 2017 compared to a gain of \$0.5 million in the half-year ended 31 December 2016. These expenses include 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 in the half year to 31 December 2016 was mainly the result of the net transfer of manufacturing labour and overhead to inventory of \$1.0 million associated with the build up of inventory for orders in 2017, compared to a Nil movement in the half-year ended 31 December 2017.

Also included in other expenses 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 gains were \$0.5 million in the half-year ended 31 December 2017 compared to losses of \$0.7 million in the half-year ended 31 December 2016. The foreign exchange losses are largely unrealised and relate to the movement on the USD denominated NovaQuest finance agreement.

Depreciation & amortisation

Depreciation and amortisation expense was \$1.6 million in the half-year ended 31 December 2017 in line with the half-year ended 31 December 2016.

Finance expenses

Finance expenses were \$0.3 million in the 2017 half-year period in line with 2016. The finance charges relate to the capitalised finance lease of our corporate manufacturing facility at Frenchs Forest, Sydney.

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2017

Costs in relation to change in collaboration agreement

This one-off expense relates to changing the research collaboration agreement with Synairgen. Under the amended agreement the Company paid £5.0 million (A\$8.8 million) to Synairgen and also incurred associated legal and professional fees of \$0.8 million.

Income tax expense

Income tax expense in the 2017 half year relates to a tax refund received on the final return of our dormant UK subsidiary. The group's overseas subsidiaries are currently dormant.

Balance Sheet

The group ended the half-year with \$25 million in cash and cash deposits.

Inventory was \$2.6 million at 31 December 2017 in line with the prior year.

Trade and other receivables includes the 2017 research and development tax credit of \$3.3 million (2016: \$2.1m) that has since been received by the Company. No tax credit has been accounted for in relation to the December 2017 half year as the group has 2018 fiscal year aggregated revenue exceeding the \$20 million cap for a refundable tax credit.

There is no deferred revenue at 31 December 2017 as the clinical trial is complete (2016: \$5.3 million).

Events occurring after the end of the reporting period

In January 2018 Boehringer Ingelheim dosed the first patient in a phase 2a trial in diabetic retinopathy, triggering a milestone payment to Pharmaxis of €10 million (approximately A\$15 million) that was received in February.

Apart from the above, no other matters or circumstances have arisen since 31 December 2017 that have 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.

Pharmaxis Ltd

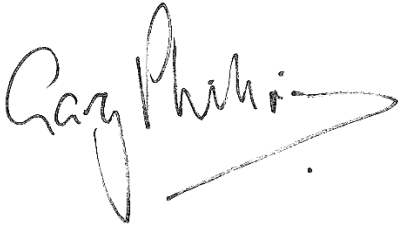
Directors' Report

For the half-year ended 31 December 2017

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 Commission, 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.

A handwritten signature in black ink, appearing to read 'Gary Phillips', with a long horizontal stroke extending to the right.

Gary J Phillips
Director
15 February 2018



Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. 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.

A handwritten signature in black ink, appearing to read 'Mark Dow', with a long, sweeping horizontal line extending to the right.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
15 February 2018

Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2017

		31 December 2017 \$'000	31 December 2016 \$'000
	Notes		
Revenue from continuing operations			
Revenue from sale of goods	3	2,451	1,690
Other revenue	3	28,483	4,710
Other income	4	410	510
		31,344	6,910
 Expenses from ordinary activities			
Employee costs		(5,649)	(5,455)
Administration & corporate		(1,328)	(1,065)
Rent, occupancy & utilities		(601)	(544)
Clinical trials		(1,380)	(5,398)
Drug development		(3,439)	(1,592)
Sales, marketing & distribution		(549)	(457)
Safety, medical and regulatory affairs		(373)	(693)
Manufacturing purchases		(753)	(733)
Other		(379)	526
Depreciation & amortisation		(1,565)	(1,523)
Foreign exchange gains & losses		455	(689)
Finance costs		(291)	(322)
Costs in relation to change in collaboration agreement		(9,580)	-
		(25,432)	(17,945)
Profit / (Loss) before income tax		5,912	(11,035)
Income tax refund		8	-
Profit / (Loss) for the period		5,920	(11,035)
 Earnings per share:		Cents	Cents
Basic earnings / (loss) per share	8	0.02	(0.03)
Diluted earnings / (loss) per share	8	0.02	(0.03)

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 2017

	31 December 2017 \$'000	31 December 2016 \$'000
Profit / (Loss) for the period	5,920	(11,035)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	-	-
Other comprehensive income / (loss) for the period, net of tax	-	-
Total comprehensive income / (loss) for the period	5,920	(11,035)
Total comprehensive income / (loss) for the period is attributable to:		
Owners of Pharmaxis Ltd	5,920	(11,035)

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 2017

	Notes	31 December 2017 \$'000	30 June 2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		25,045	21,504
Trade and other receivables		5,892	4,569
Inventories		2,578	2,570
Total current assets		33,515	28,643
Non-current assets			
Receivables		1,446	1,428
Property, plant and equipment		13,679	14,860
Intangible assets		465	503
Total non-current assets		15,590	16,791
Total assets		49,105	45,434
LIABILITIES			
Current liabilities			
Trade and other payables		6,196	6,818
Borrowings		1,029	981
Other liabilities		886	896
Deferred revenue		-	1,144
Provisions		735	682
Current tax liabilities		-	-
Total current liabilities		8,846	10,521
Non-current liabilities			
Borrowings		7,745	8,270
Other liabilities		22,313	22,862
Provisions		179	260
Total non-current liabilities		30,237	31,392
Total liabilities		39,083	41,913
Net assets		10,022	3,521
EQUITY			
Contributed equity	5 (a)	344,623	344,623
Reserves		20,093	19,512
Accumulated losses		(354,694)	(360,614)
Total equity		10,022	3,521

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 2017

	Contributed equity	Reserves	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000
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
Balance at 30 June 2017	344,623	19,512	(360,614)	3,521
Profit for the period	-	-	5,920	5,920
Other comprehensive income	-	-	-	-
Total comprehensive income/ (loss) for the half year	-	-	5,920	5,920
Transactions with owners in their capacity as owners				
Employee share options	-	581	-	581
	-	581	-	581
Balance at 31 December 2017	344,623	20,093	(354,694)	10,022

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 2017

	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	30,016	8,072
Payments to suppliers and employees (inclusive of goods and services tax)	(16,954)	(17,375)
Payments in relation to the change in the Synairgen collaboration arrangement	(8,675)	-
	4,387	(9,303)
Interest received	244	409
Income taxes refunded	8	-
Net cash inflow / (outflow) from operating activities	4,639	(8,894)
Cash flows from investing activities		
Payments for plant and equipment	(224)	(173)
Proceeds from disposal of plant & equipment	2	-
Payments for intangible assets	(13)	(41)
Net cash outflow from investing activities	(235)	(214)
Cash flows from financing activities		
Finance lease payments	(768)	(744)
Financing agreement payments	(95)	(112)
Net cash outflow from financing activities	(863)	(856)
Net increase / (decrease) in cash and cash equivalents	3,541	(9,964)
Cash and cash equivalents at the beginning of the financial period	21,504	39,209
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	-
Cash and cash equivalents at the end of the financial period	25,045	29,245

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 2017 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 2017 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 2017 reporting period.

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

The Group's current revenue recognition treatment as noted in 1.(e) in the annual financial statements for the year ending 30 June 2017 will not be materially impacted by the new revenue standard (AASB 15). The new standard will be adopted by the Group for the financial year commencing 1 July 2018.

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

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 clinical development, manufacture and sale of 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 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 2017 is as follows:

2. Segment information (continued)

	Bronchitol & Aridol	New Drug Development	Corporate	Total
	\$'000	\$'000	\$'000	\$'000
Half-year 2017				
Total segment revenue	3,815	27,056	229	31,100
Expenses from ordinary activities				
Employee costs	(2,706)	(1,335)	(996)	(5,037)
Administration & corporate	(265)	(91)	(972)	(1,328)
Rent, occupancy & utilities	(256)	(36)	(309)	(601)
Clinical trials	(166)	(1,214)	-	(1,380)
Drug development	-	(3,439)	-	(3,439)
Sales, marketing & distribution	(549)	-	-	(549)
Safety, medical and regulatory affairs	(373)	-	-	(373)
Manufacturing purchases	(753)	-	-	(753)
Other	(194)	(69)	(7)	(270)
Costs in relation to the change in collaboration agreement	-	-	(9,580)	(9,580)
	(5,262)	(6,184)	(11,864)	(23,310)
Adjusted EBITDA	(1,447)	20,872	(11,635)	7,790
Half-year 2016				
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)

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 profit / (loss) before income tax is provided as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Adjusted EBITDA	7,790	(8,440)
Interest revenue	244	409
Finance costs		
Unrealised gains / (losses) on financial instruments	346	(681)
Finance lease charges	(291)	(322)
Depreciation and amortisation expense	(1,565)	(1,523)
Impairment of patents and other assets	-	-
Redundancy expenses	(31)	-
Share-based payment expenses	(581)	(478)
Profit / (Loss) before income tax	5,912	(11,035)

3. Revenue

Sales revenue

Sale of goods	2,451	1,690
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Other revenue

Clinical trial cost reimbursements	1,187	4,301
Drug candidate milestone income	26,891	-
Interest	244	409
Other	161	-
	28,483	4,710

4. Other income

Drug Discovery service fees	-	330
R&D tax credits	160	-
Other income	250	180
	410	510

5. Contributed equity

	Parent entity		Parent entity	
	31 December	30 June	31 December	30 June
	2017	2017	2017	2017
	Shares	Shares	\$'000	\$'000
(a) Share capital				
Ordinary shares				
Fully paid	319,720,344	319,106,844	344,623	344,623

Movements in ordinary share capital:

Details	Number of shares	Issue price	\$'000
Opening balance as at 1 July 2017	319,106,844		344,623
Exercise of employee options	404,500	\$ - ⁽¹⁾	-
Employee Share Plan	209,000	\$ - ⁽²⁾	-
Closing Balance at 31 December 2017	319,720,344		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 2017 in respect of:

Guarantees

The Group's bankers have issued bank guarantees secured by deposits at the bank for which no provision has been made in the accounts. The Group at 31 December 2017 had a total deposits of \$1.3 million (2016: \$1.3 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

In January 2018 Boehringer Ingelheim dosed the first patient in a phase 2a trial in diabetic retinopathy, triggering a milestone payment to Pharmaxis of €10 million (approximately earned A\$15 million) that was received in February.

Apart from the above, no other matters or circumstances have arisen since 31 December 2017 that have 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 2017 Cents	31 December 2016 Cents
(a) Basic earnings per share		
Profit / (Loss) attributable to the ordinary owners of the Company	0.02	(0.03)
(b) Diluted earnings per share		
Profit / (Loss) attributable to the ordinary owners of the company	0.02	(0.03)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (loss) per share	319,588,127	317,988,385
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	322,347,094	319,338,635

(d) Information concerning the classification of securities

Options

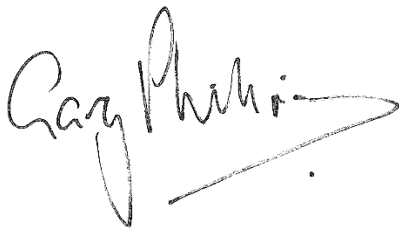
Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

Pharmaxis Ltd
Directors' declaration
31 December 2017

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 2017 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.

A handwritten signature in black ink, appearing to read 'Gary Phillips', with a long horizontal stroke extending to the right.

Gary J Phillips
Director

Sydney
15 February 2018



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 2017, 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 2017 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

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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 2017 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*

A large, stylized, handwritten signature of "PricewaterhouseCoopers" in black ink, with a long horizontal line extending from the end of the word "Coopers".
PricewaterhouseCoopers

A large, stylized, handwritten signature of "Mark Dow" in black ink, with a long horizontal line extending from the end of the signature.

Mark Dow
Partner

Sydney
15 February 2018