Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2018

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 2018 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

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ABN 75 082 811 630

Reporting period: Half year ended 31 December 2018

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

Results for announcement to the market

				A$'000
Revenue from sale of goods	**Down**	**214**	to	**2,237**
Other revenue from ordinary activities	**Down**	**28,180**	to	**713**
Total revenue from ordinary activities	**Down**	**28,394**	to	**2,950**
Loss from ordinary activities after tax	**Up**	**18,507**	to	**(12,587)**
Net loss for the year attributable to members	**Up**	**18,507**	to	**(12,587)**

Dividends

It is not proposed to pay a dividend.

Other Appendix 4D information

	31 December 2018	31 December 2017
Net tangible assets per ordinary share	**$ 0.054**	$ 0.031

Pharmaxis Ltd
Half-Year Report - 31 December 2018

Contents

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

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

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, NSW, Australia 2086

This interim financial report does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the financial statements for the year ended 30 June 2018 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 14 February 2019. 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 2018

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 2018.

Directors

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

Malcolm McComas (Chairman)
Gary Phillips (Chief Executive Officer)
William Delaat
Simon Buckingham (retired 22 November 2018)
Kathleen Metters
Edward Rayner (appointed 17 September 2018)

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 Like 2 (LOXL2) inhibitors targeting fibrotic diseases of the liver, heart, kidney and lung that recently completed phase 1 clinical trials;
- a Lysyl Oxidase (LOX) inhibitor in development for pancreatic cancer that recently completed preclinical development; and
- BI 1467335, a potent inhibitor of Semicarbazide-Sensitive Amine Oxidase (SSAO) acquired by Boehringer Ingelheim in May 2015, to develop 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 (DR) 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 in December 2018 a new drug application was resubmitted to the US Food and Drug Administration by the Company's US licensee, Chiesi Group seeking approval in the United States.
- 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 the United States, 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:

<u>Anti-inflammatory drug BI 1467335</u>

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 and in January 2018 a phase 2a clinical trial in diabetic retinopathy (DR) was also initiated.

Both trials continued to recruit during the half year.

The NASH trial is due to report in the first half of calendar 2019 and the DR trial is due to report in the first half of calendar 2020.

<u>Anti-fibrotic program targeting the LOXL2 enzyme</u>

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

completed phase 1 clinical trials and three month toxicology studies in two LOXL2 inhibitor compounds and expanded the preclinical scientific data package. The LOXL2 program is now ready to proceed into phase 2 clinical trials.

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 first half of 2019.

Other research initiatives

Other earlier stage drug development programs and initiatives include:

- The systemic LOX anti-fibrotic inhibitor program which has potential applications in myelofibrosis and pancreatic cancer completed preclinical development during the current half year and is scheduled to commence phase 1 clinical trials in the first half of 2019.
- Preclinical development continued for the topical LOX program with potential in scarring and the SSAO combination programs with potential anti-inflammatory applications.

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.

- Pharmaxis has partnered its work on Bronchitol for the United States with Chiesi Group (Chiesi), a global pharmaceutical company headquartered in Parma, Italy. In December 2018 a new drug application was resubmitted to the US Food and Drug Administration by Chiesi. The resubmission responded to the matters raised by the FDA in its Complete Response Letter issued in March 2013 and includes the results of the phase 3 clinical trial conducted after consultation with the FDA. The trial reported in June 2017. Pharmaxis expects the FDA review process to take between six and twelve months to conclude. 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. While Pharmaxis did not record any sales of Bronchitol to Chiesi for the UK and Germany 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 2017 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 and in December 2018 Bronchitol was added to the Essential Drugs List and thereby now receives national reimbursement.

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 the U.S.A., Australia, South Korea and a number of European countries.

During the current half year the Company announced the first sales of Aridol in the United States following the relaunch of the product. Aridol is sold in the US by Pharmaxis' exclusive distribution partner Methapharm Inc., a corporation with extensive experience in the sales channels and specialist centres that conduct lung function testing.

Pharmaxis received approval in August 2018 from the United States Food and Drug Administration (FDA) for its manufacturing facility in Sydney to produce Aridol for the US market.

Financial Highlights

Revenue from sale of goods

Sales for the half year ended 31 December 2018 were $2.2 million, a decrease of $0.3 million on the 31 December 2017 half year.

Sales of Bronchitol for the half year ended 31 December 2018 were $0.6 million compared to $1.5 million for the half-year ended 31 December 2017. The decrease is due to the timing of Chiesi's orders for Bronchitol with no sales to Chiesi for Germany and the UK in the current half year versus $0.9 million in the half year ended 31 December 2017.

The group sold Aridol to customers in the USA, Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2018 were $1.6 million, an increase of $0.6 million on the half year ended 31 December 2017 as the company re-enters the US market via the Company's exclusive distributor Methapharm, Inc., with sales to Methapharm in the current half year of $0.7 million.

Interest

The increase in interest income was driven by higher cash and cash equivalent balances following the share placements.

Other revenue and income

The Company received other income of $264,000 for the half year ending 31 December 2018 representing the sub-leasing of parts of the Company's Frenchs Forest premises.

During the half year end 31 December 2017 the Company received other revenue and income from the following sources:

- $27.0 million from Boehringer Ingelheim upon commencement of a phase 2 clinical trial in NASH of the drug they acquired from Pharmaxis in 2015, and
- $1.2 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 trial was fully reported in the half year to 31 December 2017 and all revenue had then been recognised.
- Other income included $161,000 additional R&D tax credit claim from the 2017 financial year.

Employee costs

Employee related expenses were $6.0 million in the half-year ended 31 December 2018 compared to $5.6 million in the half-year ended 31 December 2017. Employee costs include share based payments (non-cash) totalling $0.7 million in the 2018 half year period, compared to $0.6 million in the corresponding 2017 half year period. At 31 December 2018 the Company employed 69 full time equivalents (31 December 2017: 67) of whom 69 percent were in the Bronchitol and Aridol business, 23 percent in drug development, and 8 percent in corporate.

Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were $1.2 million in the 2018 half-year period and $1.3 million in 2017.

Clinical trials

Clinical trials expenses were $0.4 million in the half-year ended 31 December 2018 compared to $1.4 million in the half-year ended 31 December 2017, a decrease of $1.0 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 clinical trials. The decrease in clinical trial costs are due to the CF303 clinical trial completing in the half year ended 31 December 2017 and a reduction in the level of expenditure on phase 1 clinical trials.

Drug development

Drug development expenses were $3.2 million for the half-year ended 31 December 2018 compared to $3.4 million in the half-year ended 31 December 2017. 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 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 2017.

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 $0.5 million, an increase of $0.1 million on the 2017 half year spend.

Manufacturing purchases

Manufacturing purchases were $0.6 million in the half-year ended 31 December 2018 compared to $0.8 million in the half-year ended 31 December 2017. 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 gain of $0.2 million in the half-year ended 31 December 2018 compared to a loss of $0.4 million in the half-year ended 31 December 2017. 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 2018 was mainly the result of the net transfer of manufacturing labour and overhead to inventory of $0.6 million associated with the build up of inventory for orders in 2019, 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 losses were $1.2 million in the half-year ended 31 December 2018 compared to gains of $0.5 million in the half-year ended 31 December 2017. 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 $1.3 million in the half-year ended 31 December 2018 a decrease of $0.3 million on the half-year ended 31 December 2017.

Finance expenses

Finance expenses were $2,000 in the 2018 half-year period compared to $0.3 million the 2017 half-year period. The Company realised a gain of $0.3 million in the 2018 half-year when the European component of the NovaQuest liability was reduced. This was offset by the finance charges related to the capitalised finance lease of our corporate manufacturing facility at Frenchs Forest, Sydney.

Costs in relation to change in collaboration agreement

For the half year ending 31 December 2017 the Company incurred a one-off expense related 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 $42 million in cash and cash deposits, an increase of $11.0 million as a result of the share placement during the half year ending 31 December 2018.

Inventory was $3.0 million at 31 December 2018 an increase of $0.6 million on the prior year as the Company built up inventory for orders in 2019.

Events occurring after the end of the reporting period

No other matters or circumstances have arisen since 31 December 2018 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.

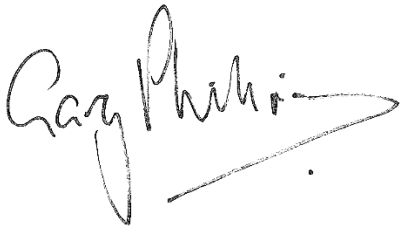
Auditor's independence declaration

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

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.



Gary J Phillips
Director
14 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half-year ended 31 December 2018, 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
14 February 2019

Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2018

	Notes	**31 December 2018 $'000**	31 December 2017 $'000
Revenue from continuing operations			
Revenue from sale of goods	3	**2,237**	2,451
Other revenue	3	**449**	28,483
Other income	4	**264**	410
		2,950	31,344
Expenses from ordinary activities			
Employee costs		(5,989)	(5,649)
Administration & corporate		(1,198)	(1,328)
Rent, occupancy & utilities		(679)	(601)
Clinical trials		(441)	(1,380)
Drug development		(3,201)	(3,439)
Sales, marketing & distribution		(534)	(549)
Safety, medical and regulatory affairs		(478)	(373)
Manufacturing purchases		(632)	(753)
Other		154	(379)
Depreciation & amortisation		(1,292)	(1,565)
Foreign exchange gains & losses		(1,245)	455
Finance costs		(2)	(291)
Costs in relation to change in collaboration agreement		-	(9,580)
		(15,537)	(25,432)
(Loss) / Profit before income tax		**(12,587)**	5,912
Income tax refund		**-**	8
(Loss) / Profit for the period		**(12,587)**	5,920
Earnings per share:		**Cents**	Cents
Basic (loss) / earnings per share	8	**(0.03)**	0.02
Diluted (loss) / earnings per share	8	**(0.03)**	0.02

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 2018

	31 December 2018	31 December 2017
	$'000	$'000
(Loss) / Profit for the period	**(12,587)**	5,920
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**-**	-
Other comprehensive (loss) / income for the period, net of tax	**-**	-
Total comprehensive (loss) / income for the period	**(12,587)**	5,920
Total comprehensive (loss) / income for the period is attributable to:		
Owners of Pharmaxis Ltd	**(12,587)**	5,920

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 2018

	Notes	**31 December 2018 $'000**	30 June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**42,003**	31,073
Trade and other receivables		**1,796**	2,513
Inventories		**2,989**	2,398
Total current assets		**46,788**	35,984
Non-current assets			
Receivables		**1,079**	1,216
Property, plant and equipment		**11,330**	12,451
Intangible assets		**717**	446
Total non-current assets		**13,126**	14,113
Total assets		**59,914**	50,097
LIABILITIES			
Current liabilities			
Trade and other payables		**4,375**	5,599
Borrowings		**1,160**	1,098
Other liabilities		**1,586**	735
Provisions		**840**	812
Current tax liabilities		**-**	-
Total current liabilities		**7,961**	8,244
Non-current liabilities			
Borrowings		**6,575**	7,171
Other liabilities		**23,330**	23,398
Provisions		**179**	166
Total non-current liabilities		**30,084**	30,735
Total liabilities		**38,045**	38,979
Net assets		**21,869**	11,118
EQUITY			
Contributed equity	5 (a)	**367,301**	344,623
Reserves		**21,341**	20,681
Accumulated losses		**(366,773)**	(354,186)
Total equity		**21,869**	11,118

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 2018

	Notes	Contributed equity	Reserves	Accumulated losses	Total
		$'000	**$'000**	**$'000**	**$'000**
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 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
Balance at 30 June 2018		**344,623**	**20,681**	**(354,186)**	**11,118**
Loss for the period		**-**	**-**	**(12,587)**	**(12,587)**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive loss for the half year		**-**	**-**	**(12,587)**	**(12,587)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	5 (a)	**22,678**	**-**	**-**	**22,678**
Employee share options		**-**	**660**	**-**	**660**
		-	**660**	**-**	**660**
Balance at 31 December 2018		**367,301**	**21,341**	**(366,773)**	**21,869**

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 2018

	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**3,130**	30,016
Payments to suppliers and employees (inclusive of goods and services tax)	**(13,848)**	(16,954)
Payments in relation to the change in the Synairgen collaboration arrangement	**(11)**	(8,675)
	(10,729)	4,387
Interest received	**449**	244
Income taxes refunded	**-**	8
Net cash inflow / (outflow) from operating activities	**(10,280)**	4,639
Cash flows from investing activities		
Payments for plant and equipment	**(251)**	(224)
Proceeds from disposal of plant & equipment	**-**	2
Payments for intangible assets	**(311)**	(13)
Net cash outflow from investing activities	**(562)**	(235)
Cash flows from financing activities		
Proceeds from issues of shares	**24,000**	-
Transaction costs arising on share issue	**(1,322)**	-
Finance lease payments	**(793)**	(768)
Financing agreement payments	**(112)**	(95)
Net cash inflow / (outflow) from financing activities	**21,772**	(863)
Net increase / (decrease) in cash and cash equivalents	**10,930**	3,541
Cash and cash equivalents at the beginning of the financial period	**31,073**	21,504
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	**42,003**	25,045

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 2018 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 2018 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 will be adopted in the specified periods:

The Group adopted the new revenue standard (AASB 15) for the financial year commencing 1 July 2018 and has assessed there to be no transitional impact of the new standard.

The Group has assessed the impact of the new lease standard (AASB 16) to have an increase of approximately $3.0m in property, plant and equipment and corresponding liability in finance lease when adopted by the Group for the financial year commencing 1 July 2019. This represents the operating lease component of the Frenchs Forest facility lease agreement.

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 2018 is as follows:

2. Segment information (continued)

	Bronchitol & Aridol	New Drug Development	Corporate	Total
Half-year 2018	**$'000**	**$'000**	**$'000**	**$'000**
Total segment revenue	2,251	-	250	2,501
Expenses from ordinary activities				
Employee costs	(2,881)	(1,414)	(1,034)	(5,329)
Administration & corporate	(237)	(95)	(866)	(1,198)
Rent, occupancy & utilities	(282)	(43)	(354)	(679)
Clinical trials	621	(1,062)	-	(441)
Drug development	-	(3,201)	-	(3,201)
Sales, marketing & distribution	(534)	-	-	(534)
Safety, medical and regulatory affairs	(478)	-	-	(478)
Manufacturing purchases	(632)	-	-	(632)
Other	383	(108)	(94)	181
	(4,040)	(5,923)	(2,348)	(12,311)
Adjusted EBITDA	**(1,789)**	**(5,923)**	**(2,098)**	**(9,810)**
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**

The senior management committee uses the adjusted EBITDA as a measure to assess performance of the segments. This excludes the effects of material non-recurring expenditure such as redundancy costs, partnering 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 2018 $'000	31 December 2017 $'000
Adjusted EBITDA	**(9,810)**	7,790
Interest revenue	**449**	244
Finance costs		
Unrealised (losses) / gains on financial instruments	**(1,015)**	346
Finance lease charges	**(259)**	(291)
Depreciation and amortisation expense	**(1,292)**	(1,565)
Redundancy expenses	**-**	(31)
Share-based payment expenses	**(660)**	(581)
(Loss) / Profit before income tax	**(12,587)**	5,912

3. Revenue

Sales revenue		
Sale of goods	**2,237**	2,451
Other revenue		
Clinical trial cost reimbursements	**-**	1,187
Drug candidate milestone income	**-**	26,891
Interest	**449**	244
Other	**-**	161
	449	28,483

4. Other income

R&D tax credits	**-**	160
Other income	**264**	250
	264	410

5. Contributed equity

	Parent entity		Parent entity	
	31 December 2018	30 June 2018	**31 December 2018**	30 June 2018
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**394,291,298**	319,778,344	**344,623**	344,623

Movements in ordinary share capital:

Details	**Number of shares**	**Issue price**	**$'000**
Opening balance as at 1 July 2018	319,778,344		344,623
Exercise of employee options	487,000	$ - (1)	-
Employee Share Plan	179,800	$ - (2)	-
Issuance of shares	73,846,154	$0.325	24,000
Transaction costs arising on share issue	-		(1,322)
Closing Balance at 31 December 2018	394,291,298		367,301

(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 2018 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 2018 had a total deposits of $0.9 million (2017: $1.3 million) covering a rental bond and corporate credit card facility.

7. Events occurring after the end of the reporting period

No matters or circumstance have arisen since 31 December 2018 that has significantly affected, or may significantly affect:

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

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

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

8. Earnings per share

	31 December 2018	31 December 2017
	Cents	Cents
(a) Basic earnings per share		
(Loss) / profit attributable to the ordinary owners of the Company	**(0.03)**	0.02
(b) Diluted earnings per share		
(Loss) / profit attributable to the ordinary owners of the company	**(0.03)**	0.02
(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	**368,695,959**	319,588,127
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	**374,973,709**	322,347,094

(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 2018

In the directors' opinion:

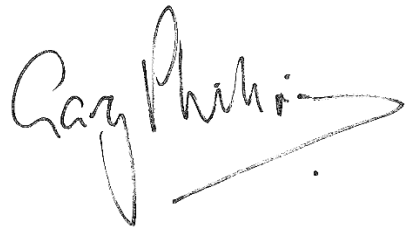
(a) the financial statements and notes set out on pages 9 to 18 are in accordance with the *Corporations Act 2001,* including:

  (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 2018 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
14 February 2019

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 2018, 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 other 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 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 2018 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:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
14 February 2019