Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2009

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 2009 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 31st December 2009
(Previous corresponding period: Half year ended 31st December 2008)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Down**	**42%**	to	**2,284**
Profit(loss) from ordinary activities after tax	**Up**	**40%**	to	**(21,504)**
Net profit(loss) for the half year attributable to members	**Up**	**40%**	to	**(21,504)**

Dividends
It is not proposed to pay a dividend

Other Appendix 4D information

	31 December 2009	31 December 2008
Net tangible assets per ordinary share	**$ 0.53**	$ 0.53

Pharmaxis Ltd
Half-Year Report - 31 December 2009

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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, 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 2009 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 4th February 2010. 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.

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 2009.

Directors

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

Denis Hanley (Chairman)
Alan Robertson (Chief Executive Officer)
William Delaat
Peter Farrell (resigned 21 October 2009)
Malcolm McComas
John Villiger
Richard van den Broek

Review of operations

Overview

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

Bronchitol

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

Major milestones achieved during the first half of fiscal 2010 included:

- Completion of enrolment of the group's second global Phase III clinical trial in patients with cystic fibrosis required before a marketing application can be submitted in the U.S. A total of 317 participants joined the trial with the first efficacy data from the trial expected to be available during the first half of calendar 2010.
- Commencement of enrolment in the group's pivotal twelve month Phase 3 trial of Bronchitol for bronchiectasis.
- Filing of a marketing application with the European Medicines Agency (EMeA) to market Bronchitol in Europe for the treatment of cystic fibrosis.
- Release of significant headline results for the second six month dosing of the group's first international Phase III trial of Bronchitol in people with cystic fibrosis.
- Filing of a marketing application with the Australian Therapeutic Goods Administration (TGA) to market Bronchitol in Australia for the treatment of cystic fibrosis.

Aridol

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

Key milestones achieved during the first half of fiscal 2010 included:

- Reimbursement received for Aridol in South Korea at a premium to other tests in the local market. The price approval follows a long reimbursement process review by Korean authorities.
- A total of 13 countries have now launched Aridol, with Spain and Italy also approving the therapy for reimbursement. The group continued to expand unit sales in the various markets where Aridol is currently approved for sale.
- The group received a response letter from the U.S. Food and Drug Administration in relation to its new drug application for Aridol. The group is working to address the matters noted in the letter and progress to approval as soon as possible.

Other

The group continued the commissioning of its new manufacturing plant in readiness for the European launch of Bronchitol for cystic fibrosis, with the three-storey spray dryer now operational. A specialised air handling plant, WFI water treatment plant, powder blender, blister packer and automated capsule filler have also been installed. The facility is due to be fully operational by the second quarter of 2010.

Financial Highlights	**31 December 2009**	31 December 2008
	$'000	$'000
Revenue from sale of goods	**354**	309
Cost of sales	**(107)**	(77)
Gross profit	**247**	232
Interest income	**1,930**	3,657
Other income	**165**	144
Other expenses from ordinary activities		
Research & development expenses	**(17,296)**	(13,587)
Commercial expenses	**(2,465)**	(2,890)
Administration expenses	**(3,534)**	(2,922)
Finance expenses	**(508)**	-
Loss before income tax	**(21,461)**	(15,366)
Income tax expense	**(43)**	(28)
Loss for the period	**(21,504)**	(15,394)
Cash and cash equivalents	**102,081**	93,970
Net assets	**117,728**	104,902

Revenue from sale of goods:

The group shipped Aridol to customers in Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2009 were 15% greater than sales in the half-year ended 31 December 2008. Overall gross margin was 70% of sales for the half-year ended 31 December 2009 (2008: 75%).

Interest:

The decrease in interest income is attributable to the overall decrease in interest rates returned on funds invested.

Other income:

Other income predominately includes fees charged for the group's UK sales force promoting other pharmaceutical companies' products to respiratory specialists.

Research & development expenses:

Research & development expenses increased by approximately $3.7 million in the first half of fiscal 2010 compared to the first half of fiscal 2009. There are four major components to research & development expenses:

1. The drug discovery unit accounted for approximately 7 percent of the total research and development expenditure in the current half-year. It is focused on inflammatory and respiratory drug discovery. Expenditure increased by approximately $176,000 compared to the half-year ended 31 December 2008 reflecting additional research infrastructure and increased use of outside research consultants at the current stage of development work.

2. The preclinical development unit accounted for approximately 2 percent of the total research and development expenditure in the current half-year and decreased by approximately $240,000 compared to the half-year ended 31 December 2008. In the 31 December 2008 half-year the group was managing outsourced safety/toxicology studies of PXS4159. In the current half-year the unit was not engaged in safety studies of a similar size or cost.

3. The clinical unit accounted for approximately 66 percent of the total research and development expenditure in the current half-year and increased by approximately $2.3 million compared to the half-year ended 31 December 2008. The clinical unit designs and monitors the clinical trials run by the group and are responsible for regulatory agency filings. The majority of the expenditures of this unit are directed at hospitals and other services related to the conduct and analysis of clinical trials. This increase in expenditure reflects the increased number of clinical trials in the active dosing phase during the current half-year as well as costs associated with achieved and proposed regulatory filings of Aridol and Bronchitol. As the group's largest area of research, the increase of expenditure by the clinical unit was the predominant cause of the overall increase of research and development expenditure during the current half-year.

4. Manufacturing. The manufacturing facility at Frenchs Forest is focused on producing material for clinical trials and regulatory filing related studies, and developing enhanced manufacturing processes. All costs associated with this work are classified as a research and development expenditure. Costs associated with the Aridol product sold are classified as cost of sales. Manufacturing accounted for approximately 25 percent of our total research and development expenditure in the current half-year and increased by approximately $1.4 million compared to the half-year ended 31 December 2008 predominantly because of the increase in production requirements to support clinical trial activities and commissioning efforts associated with the new manufacturing facilities.

Administration expenses:

Administration expenses include accounting, administration, recruitment and public company costs. Administration expenses for the current half-year were $3.5 million, compared to $2.9 million in the half-year ended 31 December 2008. The increase in administration expenses in the current half-year is mainly attributable to professional costs associated with the Topigen acquisition and higher occupancy and overhead charges associated with the new manufacturing facility.

Commercial expenses:

The commercial expenses are focussed on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Commercial expenses for the current half-year were $2.5 million, compared to $2.9 million in the half-year ended 31 December 2008. The decrease in commercial expenses is predominantly attributable to a stronger AUD exchange rate in the current half year reducing the Australian dollar value of the US and UK commercial operations.

Finance expenses:

Finance expenses represent the ongoing finance charge associated with the capitalised finance lease of our new manufacturing facility at Frenchs Forest, Sydney. These costs commenced in May 2009.

Income tax expense:

Income tax expense relates to tax on the income generated by the group's UK and US subsidiaries which are currently reimbursed for their expenditures on a cost plus basis, upon which tax is payable.

Balance Sheet:

The group ended the half-year with $102 million in cash, cash deposits and bank accepted commercial bills. Capital expenditure during the period predominantly related to the new manufacturing facility.

Shareholders are advised that additional information concerning the group's progress in the quarter ended 31 December 2009 is contained in the December 2009 Quarterly Report to Shareholders, 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 5.

Rounding of amounts

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

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

Alan D Robertson
Director
4th February 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

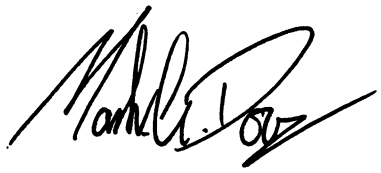
Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNE NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half year ended 31 December 2009, 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
4 February 2010

Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2009

	Notes	**31 December 2009 $'000**	31 December 2008 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**354**	309
Cost of sales		**(107)**	(77)
Gross profit		**247**	232
Other revenue	2	**1,930**	3,657
Other income	3	**165**	144
Other expenses from ordinary activities	4		
Research & development expenses		**(17,296)**	(13,587)
Commercial expenses		**(2,465)**	(2,890)
Administration expenses		**(3,534)**	(2,922)
Finance expenses		**(508)**	-
Loss before income tax		**(21,461)**	(15,366)
Income tax expense		**(43)**	(28)
Loss for the period		**(21,504)**	(15,394)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	9	**(9.9)**	(7.9)
Diluted earnings / (loss) per share	9	**(9.9)**	(7.9)

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 2009

	Notes	**31 December 2009 $'000**	31 December 2008 $'000
Loss for the period		**(21,504)**	(15,394)
Other comprehensive income			
Exchange differences on translation of foreign operations		**5**	14
Other comprehensive income for the period, net of tax		**5**	14
Total comprehensive income for the period		**(21,499)**	(15,380)
Total comprehensive income for the period is attributable to:			
Owners of Pharmaxis Ltd		**(21,499)**	(15,380)

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 2009

	Notes	**31 December 2009 $'000**	30 June 2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**102,081**	124,993
Trade and other receivables		**731**	1,219
Inventories		**323**	254
Total current assets		**103,135**	126,466
Non-current assets			
Receivables		**3,307**	3,392
Other financial assets		**248**	248
Plant and equipment		**32,801**	32,698
Intangible assets		**1,143**	1,193
Total non-current assets		**37,499**	37,531
Total assets		**140,634**	163,997
LIABILITIES			
Current liabilities			
Trade and other payables		**5,470**	8,587
Borrowings		**340**	316
Other liabilities		**239**	239
Current tax liabilities		**30**	55
Total current liabilities		**6,079**	9,197
Non-current liabilities			
Borrowings		**13,350**	13,559
Other liabilities		**3,188**	3,307
Provisions		**289**	243
Total non-current liabilities		**16,827**	17,109
Total liabilities		**22,906**	26,306
Net assets		**117,728**	137,691
EQUITY			
Contributed equity	5 (a)	**246,341**	245,958
Reserves		**11,060**	9,902
Accumulated losses		**(139,673)**	(118,169)
Total equity		**117,728**	137,691

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 2009

		31 December 2009	31 December 2008
		$'000	$'000
Total equity at the beginning of the financial year		**137,691**	119,121
Total comprehensive income for the period		**(21,499)**	(15,380)
Transactions with owners in their capacity as owners			
Contributions of equity, net of transaction costs	5 (a)	**383**	11
Employee share options		**1,153**	1,150
Total equity at the end of the financial period		**117,728**	104,902

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 2009

	31 December 2009 $'000	31 December 2008 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**668**	474
Payments to suppliers and employees (inclusive of goods and services tax)	**(22,880)**	(16,200)
	(22,212)	(15,726)
Research grant receipts from government	**-**	298
Interest received	**1,930**	3,657
Income taxes paid	**(62)**	(56)
Net cash outflow from operating activities	**(20,344)**	(11,827)
Cash flows from investing activities		
Payments for plant and equipment	**(2,168)**	(4,595)
Instalment payments to acquire plant and equipment	**-**	(1,363)
Proceeds from disposal of plant & equipment	**2**	-
Payments for intangible assets	**(67)**	(129)
Net cash outflow from investing activities	**(2,233)**	(6,087)
Cash flows from financing activities		
Net proceeds from issues of shares	**383**	11
Finance lease payments	**(694)**	-
Net cash (outflow) / inflow from financing activities	**(311)**	11
Net decrease in cash and cash equivalents	**(22,888)**	(17,903)
Cash and cash equivalents at the beginning of the financial year	**124,993**	111,842
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(24)**	31
Cash and cash equivalents at the end of the financial period	**102,081**	93,970

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 general purpose financial statement for the interim half-year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This 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 2009 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.

2. Revenue

	31 December 2009 $'000	31 December 2008 $'000
Sales revenue		
Sale of goods	**354**	309
Other revenue		
Interest	**1,930**	3,657

3. Other income

Government grants	**-**	(52)
Service income	**165**	196
	165	144

Service income predominantly comprised revenue received from other pharmaceutical companies for use of the Group's sales force to promote their products.

4. Expenses

	31 December 2009 $'000	31 December 2008 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**288**	278
Computer equipment	**117**	87
Leased building and improvements	**750**	54
Total depreciation	**1,155**	419
Amortisation		
Patents	**49**	48
Trademarks	**3**	3
Software	**56**	47
Total amortisation	**108**	98

4. Expenses (continued)

	31 December 2009	31 December 2008
	$'000	$'000
Net loss on disposal of plant and equipment	**7**	-
Rental expense relating to operating leases	**641**	365
Net foreign exchange losses / (gains)	**82**	(79)
Employee benefits expense		
Defined contribution superannuation expense	**387**	352
Other employee benefits expenses	**7,288**	6,810

5. Equity and reserves

	Parent entity		**Parent entity**	
	31 December 2009	30 June 2009	**31 December 2009**	30 June 2009
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**219,069,234**	217,659,109	**246,341**	245,958

Movements in ordinary share capital:

Date	**Details**	**Number of shares**	**Issue price**	**$'000**
1 July 2009	Opening balance	217,659,109		245,958
1 July 2009	Exercise of employee options	25,000	$ 2.1940	55
1 July 2009	Exercise of employee options	1,250	$ 1.9170	2
1 July 2009	Exercise of employee options	18,750	$ 1.8170	34
24 July 2009	Exercise of employee options	180,000	$ 0.3125	56
4 August 2009	Exercise of employee options	5,000	$ 1.6060	8
14 August 2009	Exercise of employee options	625	$ 1.5990	1
15 September 2009	Exercise of employee options	10,000	$ 0.8340	8
21 October 2009	Issue of restricted shares	30,000	$ 0.0000	-
27 October 2009	Exercise of employee options	7,500	$ 1.7900	13
27 October 2009	Exercise of employee options	1,875	$ 1.8918	4
27 October 2009	Exercise of employee options	125	$ 1.8170	-
26 November 2009	Exercise of employee options	1,120,000	$ 0.1250	140
9 December 2009	Exercise of employee options	10,000	$ 1.8170	18
	Adjustment to transaction costs on share issues			44
	Balance	219,069,234		246,341

5. Equity and reserves (continued)

(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 parent entity and group had contingent liabilities at 31 December 2009 in respect of:

Government grants

The group has received three separate Australian Government research grants under the R&D START Program, all three of which have been completed. The Government may require the group to repay all or some of the amount of a particular grant together with interest in either of the following circumstances:

a) the company fails to use its best endeavours to commercialise the relevant grant project within a reasonable time of completion of the project; or

b) upon termination of a grant due to breach of agreement or insolvency.

The group continues the development and commercialisation of all three projects funded by the START Program. The total amount received under the START Program at 31 December 2009 was $4,707,817.

The group recognised $Nil (2008: $(51,663)) under the Australian Government's Pharmaceuticals Partnerships Program ("P3") during the financial period. The Government may require the group to repay all or some of the amount of the grant together with interest in any of the following circumstances:

a) the Government determines that expenditure claimed on research projects do not meet the P3 guidelines; or

b) upon termination of the grant due to breach of agreement, change in control of the group or insolvency.

Guarantees

The company's bankers have issued bank guarantees of $2,845,097 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 $72,141.

The company's bankers have issued a bank guarantee of GBP70,000 in relation to corporate credit card facilities provided by an overseas affiliate of the banker to Pharmaxis Pharmaceuticals Limited. This bank guarantee is secured by a deposit held at the bank.

The company's bankers have issued a bank guarantee of USD127,814 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

The company signed an agreement on 11 January 2010 to acquire Canadian based private biopharmaceutical company Topigen Pharmaceuticals Inc. in a transaction that will enhance the group's respiratory drug development portfolio and complement the existing products and drugs under development.

On closing of the transaction, the company will issue 3.2 million shares with an additional 5.0 million shares to be issued subject to the achievement of certain preclinical and clinical milestones specified in the purchase agreement.

Apart from the above mentioned, no other matters or circumstance has arisen since 31 December 2009 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 2009 Cents	31 December 2008 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the company	**(9.9)**	(7.9)
(b) Diluted earnings per share		
Loss attributable to the ordinary owners of the company	**(9.9)**	(7.9)
(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	**218,099,894**	**194,532,615**

(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 2009

In the directors' opinion:

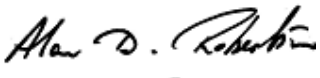
(a) the financial statements and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001,* including:

  (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 2009 and of its performance for the half-year ended on that date; and

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

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



Alan D Robertson

Director

Sydney
4th February 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Pharmaxis Ltd, which comprise the balance sheet as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Pharmaxis Ltd Group (the consolidated entity). The consolidated entity comprises both Pharmaxis Ltd (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 and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 2009 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

PRICEWATERHOUSECOOPERS

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Pharmaxis Ltd for the half-year ended 31 December 2009 included on Pharmaxis Ltd's web site. The company's directors are responsible for the integrity of the Pharmaxis Ltd web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

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 2009 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
4 February 2010