Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2011

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 2011 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Half year ended 31st December 2011
(Previous corresponding period: Half year ended 31st December 2010)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Up**	**41%**	to	**3,364**
Profit(loss) from ordinary activities after tax	**Down**	**13%**	to	**(19,515)**
Net profit(loss) for the half year attributable to members	**Down**	**13%**	to	**(19,515)**

Dividends
It is not proposed to pay a dividend

Other Appendix 4D information

	31 December 2011	31 December 2010
Net tangible assets per ordinary share	**$ 0.37**	$ 0.34

Pharmaxis Ltd
Half-Year Report - 31 December 2011

Contents

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

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

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, Australia 2086

This interim financial statement does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the financial statements for the year ended 30 June 2011 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 2nd February 2012. 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 2011

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 2011.

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
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 2012 included:

- In October 2011, the Company received a positive opinion from the Committee for Medicinal Products for Human Use, recommending the granting of a Marketing Authorisation in Europe of Bronchitol "for the treatment of cystic fibrosis in adults as an add on therapy to best standard of care." The company expects the European Commission to confirm this opinion and grant the Marketing Authorisation for Bronchitol early in 2012.
- In December 2011 the company filed a minor resubmission with the Pharmaceutical Benefits Advisory Committee (PBAC) for Bronchitol for the treatment of cystic fibrosis. The submission will be considered at the Committee's next meeting scheduled to take place in March 2012. This minor resubmission addresses concerns raised by PABC following the outcome of the November 2011 meeting where Bronchitol was not recommended for listing on the Australian Pharmaceutical Benefits Scheme.
- In December 2011 the company announced that its Phase III, DPM-B-305 study of inhaled Bronchitol, for the treatment of people with bronchiectasis, had reached its pre-specified recruitment target. This major Phase III clinical trial received input from both the U.S. and the EU regulators on its design. The trial will show if treatment with Bronchitol over twelve months leads to a reduction in pulmonary infectious episodes for people with bronchiectasis. In addition, the trial will collect data on quality of life, lung function and other aspects of the condition.

Aridol

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

The key focus for Aridol is the US Market. Sales commenced in late February 2011 and the Group continues the process of promoting and marketing the product to advance product awareness and sales growth.

Other

The company completed a 1 for 3 pro-rata accelerated non-renounceable entitlement offer to eligible shareholders and raised approximately $80.2 million. The proceeds from the Entitlement Offer will be used to increase the company's cash reserves and strengthen the balance sheet in anticipation of the commercial launch of Bronchitol for cystic fibrosis in Europe, which is expected to occur in the first half of 2012.

In September 2011, the company announced it had completed enrolment of all subjects into its Phase II clinical trial evaluating ASM8, a potential new treatment for patients with moderate to severe asthma. The data from the trial will be available during the second quarter of 2012 and a successful outcome will allow a dose to be selected for a longer trial in patients with uncontrolled, persistent, asthma.

Financial Highlights	**31 December 2011**	31 December 2010
	$'000	$'000
Revenue from sale of goods	**660**	359
Cost of sales	**(254)**	(117)
Gross profit	**406**	242
Interest income	**1,032**	1,771
Other income	**1,672**	250
Other expenses from ordinary activities		
Research & development expenses	**(15,360)**	(17,720)
Commercial expenses	**(4,386)**	(3,662)
Administration expenses	**(2,615)**	(2,793)
Finance expenses	**(358)**	(433)
Loss before income tax	**(19,609)**	(22,345)
Income tax expense	**94**	(7)
Loss for the period	**(19,515)**	(22,352)
Cash and cash equivalents	**101,202**	66,997
Net assets	**128,302**	93,309

Revenue from sale of goods:

The group shipped Aridol to customers in Europe, United States, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2011 were higher than sales in the half-year ended 31 December 2010 which reflected the contributions from the US and higher sales in South Korea. Overall gross margin was 62% of sales for the half-year ended 31 December 2011 (2010: 68%), reflecting a change in sales mix between sales to distributors and sales directly to respiratory laboratories and other customers.

Interest:

The decrease in interest income was attributable to the decrease in cash and cash equivalents available for investment during the period. The proceeds from the entitlement offer were received in November and December 2011 and higher interest will therefore be earned in the second half of the 2012 financial year.

Other income:

Other income includes an accrual for R&D tax incentive credits earned by the company on eligible R&D activities during the half-year. The new R&D Tax Incentive scheme enables a 45 per cent refundable tax offset (equivalent to a 150 per cent deduction) to eligible entities with an aggregated turnover of less than $20 million per annum. The company will fall into this category for the 2012 financial year.

Also included are fees charged for the group's UK sales force promoting other pharmaceutical companies' products to respiratory specialists.

Research & development expenses:

Research & development expenses decreased by approximately $2.4 million in the first half of fiscal 2012 compared to the first half of fiscal 2011. There are four major components to research & development expenses:

1. The drug discovery and development unit accounted for approximately 10 percent of the total research and development expenditure in the current half-year. It is focused on inflammatory and respiratory drug discovery. Expenditure decreased by approximately $1.1 million compared to the half-year ended 31 December 2010 reflecting closure of the drug discovery unit in Montreal in December 2010, which had contributed to the additional research infrastructure and associated costs reflected in the results for 2010. The Montreal activities have been absorbed into the Sydney based research programs.

2. The clinical unit accounted for approximately 51 percent of the total research and development expenditure in the current half-year and decreased by approximately $1.3 million compared to the half-year ended 31 December 2010. 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 decrease in expenditure reflects the decrease in the number of clinical trials in the active dosing phase during the current half-year.
3. 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 34 percent of our total research and development expenditure in the current half-year and expenditure was in-line with results for the half-year ended 31 December 2010.
4. Amortisation of patent costs are a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals, Inc and Technology Innovation Ltd in the first half of 2010. Patent amortisation accounted for approximately 5% of our total research and development expenditure and amounted to $877,000 which is consistent with the half year ended 31 December 2010.

Administration expenses:

Administration expenses include accounting, administration, recruitment and public company costs. Administration expenses for the current half-year were $2.6 million, compared to $2.8 million in the half-year ended 31 December 2010.

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 $4.4 million, compared to $3.7 million in the half-year ended 31 December 2010. The increase in commercial expenses is predominantly attributable to the ongoing scale-up of commercial infrastructure and resources to support the launch of Aridol in the US and Bronchitol in Australia and Europe. The higher costs were marginally offset by a continuing 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 manufacturing facility at Frenchs Forest, Sydney.

Income tax expense:

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

Balance Sheet:

The group ended the half-year with $101 million in cash, cash deposits and bank accepted commercial bills following completion of the entitlement offer. Capital expenditure during the period was constrained.

Shareholders are advised that additional information concerning the group's progress in the quarter ended 31 December 2011 is contained in the December 2011 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
2nd February 2012

Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half year ended 31 December 2011, 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
2 February 2012

Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2011

	Notes	**31 December 2011 $'000**	31 December 2010 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**660**	359
Cost of sales		**(254)**	(117)
Gross profit		**406**	242
Other revenue	2	**1,032**	1,771
Other income	3	**1,672**	250
Other expenses from ordinary activities	4		
Research & development expenses		**(15,360)**	(17,720)
Commercial expenses		**(4,386)**	(3,662)
Administration expenses		**(2,615)**	(2,793)
Finance expenses		**(358)**	(433)
Loss before income tax		**(19,609)**	(22,345)
Income tax expense		**94**	(7)
Loss for the period		**(19,515)**	(22,352)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	9	**(8.2)**	(9.9)
Diluted earnings / (loss) per share	9	**(8.2)**	(9.9)

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 2011

	31 December 2011	31 December 2010
	$'000	$'000
Loss for the period	**(19,515)**	(22,352)
Other comprehensive income		
Exchange differences on translation of foreign operations	**(57)**	(538)
Other comprehensive income for the period, net of tax	**(57)**	(538)
Total comprehensive income for the period	**(19,572)**	(22,890)
Total comprehensive income for the period is attributable to:		
Owners of Pharmaxis Ltd	**(19,572)**	(22,890)

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 2011

	Notes	**31 December 2011 $'000**	30 June 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**101,202**	44,343
Trade and other receivables		**2,468**	796
Inventories		**906**	864
Total current assets		**104,576**	46,003
Non-current assets			
Receivables		**2,278**	2,045
Property, plant and equipment		**29,033**	30,570
Intangible assets		**15,016**	15,954
Total non-current assets		**46,327**	48,569
Total assets		**150,903**	94,572
LIABILITIES			
Current liabilities			
Trade and other payables		**6,225**	7,055
Borrowings		**478**	443
Other liabilities		**239**	239
Current tax liabilities		**6**	6
Total current liabilities		**6,948**	7,743
Non-current liabilities			
Borrowings		**12,408**	12,716
Other liabilities		**2,691**	2,810
Provisions		**554**	473
Total non-current liabilities		**15,653**	15,999
Total liabilities		**22,601**	23,742
Net assets		**128,302**	70,830
EQUITY			
Contributed equity	5 (a)	**344,194**	267,610
Reserves		**13,895**	13,492
Accumulated losses		**(229,787)**	(210,272)
Total equity		**128,302**	70,830

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 2011

	Notes	Contributed equity	Reserves	Retained earnings	Total
		$'000	**$'000**	**$'000**	**$'000**
Balance at 30 June 2010		**267,050**	**12,480**	**(164,514)**	**115,016**
Loss for the period		-	-	(22,352)	(22,352)
Other comprehensive income		-	(538)	-	(538)
Total comprehensive income for the year		**-**	**(538)**	**(22,352)**	**(22,890)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		442	-	-	442
Employee share options		-	741	-	741
		442	741	-	1,183
Balance at 31 December 2010		**267,492**	**12,683**	**(186,866)**	**93,309**
Balance at 30 June 2011		**267,610**	**13,492**	**(210,272)**	**70,830**
Loss for the period		-	-	(19,515)	(19,515)
Other comprehensive income		-	(57)	-	(57)
Total comprehensive income for the year		**-**	**(57)**	**(19,515)**	**(19,572)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	5(a)	76,584	-	-	76,584
Employee share options		-	460	-	460
		76,584	460	-	77,044
Balance at 31 December 2011		**344,194**	**13,895**	**(229,787)**	**128,302**

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 2011

	31 December 2011 $'000	31 December 2010 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**863**	655
Payments to suppliers and employees (inclusive of goods and services tax)	**(21,114)**	(20,603)
	(20,251)	(19,948)
Research grant receipts from government	**-**	964
Interest received	**1,032**	1,771
Income taxes refunded/(paid)	**141**	(8)
Net cash outflow from operating activities	**(19,078)**	(17,221)
Cash flows from investing activities		
Payments for plant and equipment	**(45)**	(763)
Proceeds from disposal of plant & equipment	**106**	28
Payments for intangible assets	**(15)**	(108)
Net cash inflow/(outflow) from investing activities	**46**	(843)
Cash flows from financing activities		
Net proceeds from issues of shares	**76,499**	353
Finance lease payments	**(631)**	(612)
Net cash inflow/(outflow) from financing activities	**75,868**	(259)
Net increase/(decrease) in cash and cash equivalents	**56,836**	(18,323)
Cash and cash equivalents at the beginning of the financial year	**44,343**	85,787
Effects of exchange rate changes on the balance of cash held in foreign currencies	**23**	(467)
Cash and cash equivalents at the end of the financial period	**101,202**	66,997

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 2011 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 2011 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 2011 reporting periods and the Group is finishing their assessment of these. At this stage the Group does not believe that the impact of these new standards and interpretations will be significant.

2. Revenue

	31 December 2011 $'000	31 December 2010 $'000
Sales revenue		
Sale of goods	**660**	359
Other revenue		
Interest	**1,032**	1,771

3. Other income

R&D tax credits	**1,561**	119
Service income	**111**	131
	1,672	250

Service income predominantly comprised revenue received from another pharmaceutical company for use of the Group's sales force to promote its product.

4. Expenses

	31 December 2011 $'000	31 December 2010 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**639**	701
Computer equipment	**131**	140
Leased building and improvements	**759**	757
Total depreciation	**1,529**	1,598
Amortisation		
Patents	**877**	876
Trademarks	**3**	3
Software	**56**	68
Total amortisation	**936**	947

4. Expenses

	31 December 2011 $'000	31 December 2010 $'000
Net gain on disposal of plant and equipment	**(55)**	(27)
Rental expense relating to operating leases	**745**	770
Net foreign exchange gains	**(12)**	(218)
Employee benefits expense		
Defined contribution superannuation expense	**436**	470
Other employee benefits expenses	**8,595**	8,853

5. Equity and reserves

	Parent entity 31 December 2011 Shares	Parent entity 30 June 2011 Shares	Parent entity 31 December 2011 $'000	Parent entity 30 June 2011 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**305,890,989**	228,290,309	**344,194**	267,610

Movements in ordinary share capital:

Details	Number of shares	Issue price	$'000
Opening balance as at 1 July 2011	228,290,309		267,610
Exercise of employee options	1,140,000	$ 0.2634 (1)	300
Employee Share Plan	86,000	$ 0.991	85
Entitlement Rights Issue	76,374,680	$ 1.050	80,193
Transaction costs on share issues			(3,994)
Closing Balance at 31 December 2011	305,890,989		344,194

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

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

6. Contingent liabilities

The group had contingent liabilities at 31 December 2011 in respect of:

Guarantees

The company's bankers have issued bank guarantees of $1,069,203 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 $77,920.

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

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

7. Events occurring after the end of the reporting period

No matters or circumstance have arisen since 31 December 2011 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 2011 Cents	31 December 2010 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the company	**(8.2)**	(9.9)
(b) Diluted earnings per share		
Loss attributable to the ordinary owners of the company	**(8.2)**	(9.9)
(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	**238,246,281**	**225,788,706**

(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 2011

In the directors' opinion:

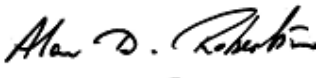
(a) the financial statements and notes set out on pages 6 to 13 are in accordance with the *Corporations Act 2001,* including:

  (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 2011 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
2nd February 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pharmaxis Ltd which comprises the balance sheet as at 31 December 2011, 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, selected explanatory notes and the directors' declaration for the Pharmaxis Ltd (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 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 control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of 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 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pharmaxis Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pharmaxis Ltd is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Mark Dow

2 February 2012