pharmaxis

2012 Statutory Annual Report

IMPORTANT INFORMATION

This Statutory Annual Report will be lodged with the Australian Securities Exchange and the Australian Securities and Investments Commission and is available from the Pharmaxis website www.pharmaxis.com.au

Information contained in or otherwise accessible through the websites mentioned in this Statutory Annual Report does not form part of the report unless specifically stated to incorporate the information by reference thereby forming part of the report. All other references in this report to websites are inactive textual references and the information contained therein is not incorporated by reference into this report.

In this Statutory Annual Report, the terms 'we,' 'our,' 'us,' 'Pharmaxis', 'Group' and 'Company' refer to Pharmaxis Ltd ABN 75 082 811 630 and its subsidiaries unless the context clearly means just Pharmaxis Ltd.

Forward Looking Statements

This Statutory Annual Report contains statements that constitute forward-looking statements. Forward-looking statements appear in a number of places in this Statutory Annual Report. In some cases, you can identify forward-looking statements by terminology such as 'may,' 'will,' 'should,' 'expects,' 'plans,' 'anticipates,' 'believes,' 'estimates,' 'predicts,' 'potential,' or 'continue,' or the negative of these terms or other comparable terminology. These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we are under no duty to update or revise any of our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Statutory Annual Report.

Currency of Presentation

We publish our consolidated financial statements in Australian dollars. In this Statutory Annual Report, unless otherwise stated or the context otherwise requires, references to 'dollar amounts', '$', 'AUD' or 'A$' are to Australian dollars.

Contents

1 Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2012.

1.1 Information on directors

The following persons were Directors of Pharmaxis Ltd during the financial year and up to the date of this report.

Malcolm J. McComas (age 57), has been a member of the Board of Directors since July 2003 and was appointed Chairman of the Board on 1 May 2012. Malcolm McComas is a company director and a former investment banker and commercial lawyer. Mr. McComas is the principal of McComas Capital and was previously a consultant and a director of Grant Samuel, the investment banking, property services and funds management group, from 1999 to 2009. Mr. McComas previously served for 10 years as Managing Director of Investment Banking at County NatWest and its successor organization Salomon Smith Barney (now Citigroup) and in various executive roles with Morgan Grenfell (now Deutsche Bank) in Melbourne, Sydney and London.

Mr. McComas has worked with many high growth companies across various industry sectors and has experience in equity and debt finance, acquisitions and divestments and privatisations. Mr. McComas has led more than 50 initial public offerings and significant secondary offerings for companies, institutions and governments. Mr. McComas is a director and the former President of Finsia (the Financial Services Institute of Australia) and a director of Consolidated Minerals Limited, Ocean Capital Limited, BC Iron Limited and the Australasian Leukaemia and Lymphoma Group. Mr. McComas has been chairman of the Remuneration and Nomination Committee since 1 May 2012, is a member of the Audit Committee and was chairman of the Audit Committee until 1 May 2012.

Denis M. Hanley (age 65) was Chairman of the Board of Directors from October 2001 until his retirement on 30 April 2012. From 1983 to 1997, Mr. Hanley served as Chief Executive Officer of Memtec Limited, a leader in the design and manufacture of microfiltration membrane systems. From 1971 to 1982, Mr. Hanley held various positions within Baxter Healthcare, most recently as Australian Managing Director. Mr. Hanley has served on the Australian Industry Research and Development Board and various technology councils and roundtables. Mr. Hanley serves on the board of directors of Universal Biosensors, Inc., CathRx Ltd and PFM Cornerstone Limited, and was a member of the Australian Government's Cooperative Research Centre Committee. Mr. Hanley holds an M.B.A. with high distinction from the Harvard Graduate School of Business Administration, where he was named a Baker Scholar.

Alan D. Robertson, Ph.D. (age 56), has been Chief Executive Officer since December 1999 and a member of the Board of Directors since July 2000. Dr. Robertson has more than two decades of experience in drug discovery and product development with leading pharmaceutical companies, including spending 8 years with Wellcome plc in London and thereafter with two Australian companies, Faulding Ltd and Amrad Ltd. Dr. Robertson has been actively involved in the discovery, development and marketing of various compounds, including new treatments for migraine and cardiovascular disease. Dr. Robertson is the co-inventor of 18 patents and author of more than 35 scientific papers, and was the inventor of the migraine therapeutic Zomig that is marketed worldwide by AstraZeneca. Dr. Robertson holds a B.Sc. and a Ph.D. in Synthetic Organic Chemistry from the University of Glasgow.

Richard A. van den Broek (age 46), has been a member of the Board of Directors since April 2009. Mr. van den Broek is a life science investment manager with over 18 years experience in the life sciences industry. Mr. van den Broek is founder and managing partner of HSMR Advisors LLC, a U.S. based fund manager with an investment emphasis on small and mid-cap biotech public companies. Prior to this Mr. van den Broek was a Partner at Cooper Hill Partners, LLC, an investment fund focused on the healthcare sector and earlier in his career worked as a biotech analyst, at Oppenheimer & Co., then Merrill Lynch, and finally at Hambrecht & Quist. Mr. van den Broek is a Chartered Financial Analyst, and is a graduate of Harvard University. Mr. van den Broek is a member of the Remuneration and Nomination Committee and was a member of the Audit Committee from 1 May 2012 until 8 August 2012.

John Villiger, Ph.D. (age 58), has been a member of the Board of Directors since November 2006. Dr. Villiger is executive chairman of Proacta Inc. Dr. Villiger co-founded The Medicines Company, a Nasdaq listed life sciences company in 1996. Dr. Villiger was Senior Vice President of Development at The Medicines Company until February 2006. From 1986 to 1996 Dr. Villiger held various positions in product development at Roche in both New Zealand and Switzerland, including International Project Director from 1991 to 1995 and Head of Global Project Management from 1995 to 1996. As Head of Global Project Management, he oversaw the development of Roche's pharmaceutical portfolio, with programs in Switzerland, the UK, U.S. and Japan. Dr. Villiger holds a Ph.D. in psychopharmacology from the University of Otago. Dr. Villiger is a member of the Remuneration and Nomination Committee.

William L. Delaat AM (age 61), has been a member of the Board of Directors since June 2008. Mr. Delaat has over 35 years experience in the global pharmaceutical industry, most recently as the managing director of the Australian subsidiary of Merck & Co., a position he held from 1997 until his retirement in 2008. During his career Mr. Delaat has held executive positions in both Europe and Australia for Merck and AstraZeneca. Mr. Delaat is experienced in sales and marketing and has been responsible for international product launches and commercialisation of respiratory products. Mr. Delaat was chairman of Medicines Australia, and the Pharmaceuticals Industry Council from 2008 to 2012. He is also Chairman of EnGenecIC Ltd, an unlisted Australian biotech company, and a director of The George Institute for Global Health Board. Mr. Delaat holds a Bachelor of Science, Physiology & Chemistry from the University of London. Mr. Delaat is a member of the Audit Committee and has been its chairman since 1 May 2012.

Simon H.W. Buckingham Ph.D. (age 50), has been a member of the Board of Directors since 25 July 2012. Dr. Buckingham has over two decades of experience in the global pharmaceutical industry across a range of functions and a variety of therapeutic areas. Now based in Sydney, he is currently a Senior Global Advisor at Actelion, one of the world's leading biopharmaceutical companies. Dr. Buckingham was President, Global Corporate and Business Development at Actelion from 2005-2011, a position which spanned licensing, M&A, alliance management and corporate strategic planning. He served as President, North America and Asia-Pacific at Actelion from 2000-2005, with responsibility for all commercial operations in the region. He was the founding President of Actelion Pharmaceuticals US. From 1998-2000 he worked for Parke-Davis (now part of Pfizer) in the US and prior to that served in roles in sales, marketing and development at Roche, both in Switzerland and Australia, for 9 years. Dr. Buckingham holds a Bachelor of Veterinary Science degree from the University of Sydney (1984) and a Ph.D. from the University of Melbourne (1988). Dr. Buckingham is a member of the Audit Committee.

There are no family relationships between any Senior Executive Officers or Directors.

1.2 Meetings of directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2012, and the number of meetings attended by each Director was:

	Board Meetings		Meetings of Committees			
			Audit		Remuneration & Nomination	
	A	B	A	B	A	B
DM Hanley	12	11	3	3	2	2
AD Robertson	17	17				
WL Delaat	17	14	5	5		
MJ McComas	17	17	5	5	1	1
RA van den Broek	17	16	2	1	3	3
J Villiger	17	15			3	3

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

1.3 Indemnification and insurance of directors

The Pharmaxis Constitution provides that, except to the extent prohibited by the Corporations Act 2001, each of our officers shall be indemnified out of Company funds against any liability incurred by such person in his or her capacity as an officer.

The Company has entered into Deeds of Access to Documents and Indemnity to indemnify Directors and certain executive officers and to provide contractual indemnification in addition to the indemnification provided for in the Constitution. These provisions and agreements are necessary to attract and retain qualified directors and executive officers.

At present, there is no pending litigation or proceeding involving any Directors, officers, employees or agents where indemnification by the Company will be required or permitted, and the Company is not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Directors' and officers' liability insurance is provided for the indemnification of Directors and officers against certain liabilities incurred as a director or officer, including costs and expenses associated in successfully defending legal proceedings. This insurance will be maintained in the future. During the financial year, a premium of $119,945 was paid to insure the directors and officers of the Group for the policy year ended 25 September 2012. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. Policy exclusions include: liabilities that arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group; pollution that could reasonably be known to management; and, bodily injury and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

1.4 Company secretary

The Company Secretary is Mr. David M. McGarvey, CA, who was appointed to the position of Company Secretary in 2002. Before joining Pharmaxis Ltd he held similar positions and Chief Financial Officer positions with both listed and unlisted companies, including Memtec Limited, which was listed on the Australian Securities Exchange, NASDAQ and the New York Stock Exchange.

1.5 Principal activities

During the year the principal continuing activities of the Group consisted of the research, development and commercialisation of human healthcare products for the treatment and management of respiratory diseases.

1.6 Review and results of operations

A review of the operations of the Group for the financial year ended 30 June 2012 is set out in Section 5 of this Statutory Annual Report.

1.7 Remuneration Report, Shares under option and Shares issued on the exercise of options

Refer to Section 2 of this Statutory Annual Report

1.8 Dividends

No dividends were paid during the year and the Directors have not recommended the payment of a dividend.

The Company has never declared or paid any cash dividends on ordinary shares and does not anticipate paying a cash dividend in the foreseeable future.

1.9 Significant changes in the state of affairs

Refer to Section 5 of this Statutory Annual Report.

1.10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2012 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.

1.11 Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the Group and the expected results of operations is included in Section 5 of this Statutory Annual Report to the extent it does not prejudice the interests of the Group.

1.12 Environmental Regulation

The Group is subject to environmental regulation in respect of its manufacturing activities including the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and Waste Minimisation & Management Act 1995. The Group has received a conditional trade waste water discharge license from Sydney Water.

1.13 Rounding

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

1.14 Non Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Group are important.

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 22 to the Annual Financial Report included in Section 6 of this Statutory Annual Report.

The Board of Directors have considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

1.15 Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is below.

Auditor's Independence Declaration

As lead auditor for the audit of Pharmaxis Ltd for the year ended 30 June 2012, 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 audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pharmaxis Ltd and the entities it controlled during the period.

Mark Dow
Partner
PricewaterhouseCoopers

9 August 2012

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1.16 Auditor

PricewaterhouseCoopers continue in office in accordance with section 327 of the *Corporations Act 2001*.

1.17 Resolution of the Board

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

Alan D Robertson
Director

Sydney
9 August 2012

2 Remuneration Report

The remuneration report is set out under the following main headings:

2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers

2.3 Service Agreements with Senior Executive Officers

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers

2.6 Equity Remuneration.

2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers

Introduction:

As an Australian company building an international speciality pharmaceutical business, a board and senior management team that have both the technical capability and relevant experience to execute each aspect of the Group's business plan is required. The Directors therefore, focus on the appropriate amount, and structure, of remuneration packages required to attract, retain, incentivise and reward the executives and directors Pharmaxis requires in this endeavour. To assist its deliberations, the Directors make use of surveys of Australian companies in the life science area and advice of recruiters and consultants who provide their analysis and understanding of the broader Australian healthcare and general listed company markets.

In reviewing comparative data concerning remuneration the Directors note that:

- While generally grouped with biotech companies, Pharmaxis seeks to build an integrated, international pharmaceutical business where the full value of the Group's lead product portfolios is retained exclusively for the benefit of shareholders.
- Pharmaxis has now developed a number of products through the clinical, regulatory and approval process. To date, Pharmaxis has received approval for Aridol in Australia, Europe, the U.S. and parts of Asia, and for Bronchitol in Australia and Europe. It has completed five Phase 3 clinical trials and has a further Phase 3 trial in process. A commercial scale manufacturing facility has been constructed and Aridol and Bronchitol have been introduced onto world markets.
- In order to obtain the experience required, it has been necessary to recruit both directors and management from the international marketplace. The most recent appointments to the Senior Executive management were recruited from overseas.

Director and Senior Executive Officer remuneration includes a mix of short and long-term components. Remuneration of Executive Directors and Senior Executive Officers include a meaningful proportion that varies with individual performance. Variable cash incentives are subject to performance assessment by the Remuneration and Nomination Committee. Performance targets in the main relate to objectives and milestones assigned to individual executives from the Group's annual business plan. At this stage of the Group's development, shareholder return is enhanced by the achievement of milestones in the development of the Group's products, within a framework of prudent financial management. The Group's earnings have not been a component of enhancing shareholder return and therefore do not form a significant measure of executive performance. Individual and overall performance targets are agreed by the Remuneration and Nomination Committee and the full Board each year. Annual performance of Senior Executive Officers is reviewed by the Remuneration and Nomination Committee each year.

Non-Executive Directors do not have a variable component of their remuneration directly related to performance.

Equity Remuneration:

Equity remuneration has been an important component of attracting and retaining talented individuals to the Board and the wider management team while staying within the fiscal constraints of a development stage company. The Group completed a review of its equity-based remuneration policies in 2010 to reflect the increased size and complexity of the business. The review confirmed the ongoing value of equity grants in attracting and retaining Non-executive Directors, Senior Executive Officers and other employees, and included a review of current Australian and international practices.

Equity Remuneration Granted to Non-executive Directors

The Board considers it appropriate at this stage of the Group's development for Non-Executive Directors to be granted equity in the Group on becoming a director. Before the 2010 review, Non-Executive Directors were issued 200,000 options on becoming a Director of the Company, subject to shareholder approval, with the options vesting equally over the four years subsequent to grant. As a result of the 2010 equity remuneration review the Board changed the type of equity granted, the quantum granted, the resale restrictions imposed and the vesting schedule. The Board's current policy is to grant newly appointed directors 30,000 zero grant and zero exercise priced options over shares in the Group, subject to shareholder approval in each instance. The options are issued for nil consideration, vest three years from the date of grant, and shares issued upon exercise of the options are restricted from sale by the Director without prior Board approval; except in the case of a takeover offer being made for the Group – in which case the options are exercisable and the shares issued available for sale into the takeover offer. The options lapse should the Non-Executive Director cease to be a Director before the three year post issue period expires. In 2010 and before the introduction of zero exercise options to the Group, a newly appointed director was granted restricted shares on equivalent terms and the Directors were pleased to note the strong level of support for the issue of shares by shareholders at the subsequent annual general meeting where the issue was approved.

Equity Remuneration Granted to Senior Executive Officers

Until the end of the 2009 financial year Senior Executives typically received annual grants of options under the Employee Option Plan, a plan in which all employees of the Group participated. The options typically vested over a four-year time frame and, for options granted after 1 January 2003 the number of an individual executive's options vesting is subject to achievement of performance targets set and approved annually by the Remuneration and Nomination Committee. The Committee may approve the vesting of all, or a portion, of the relevant options.

As a result of the 2010 review of equity remuneration the Board determined to discontinue granting of options on these terms and has established two equity remuneration plans to provide for the long term reward, incentive and retention of all employees in the Group:

- The Pharmaxis Performance Rights Plan enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as 'Performance Rights' to eligible employees of the Group. Senior Executives together with other eligible employees are invited by the Remuneration and Nomination Committee to participate in this plan.
- The Pharmaxis Share Plan will grant up to A$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, depending upon local laws, Pharmaxis may grant A$1,000 of zero exercise price options in place of ordinary shares. Senior Executive Officers do not participate in this plan.

Performance rights plans and share plans are both widely accepted in the Australian context to provide equity remuneration to management and employees of listed companies. Performance rights plans typically provide lower potential returns when compared to traditional options, but by also reducing the risk for employees they provide a stable equity remuneration instrument to reward and retain employees over the longer term.

Equity Remuneration Granted to Senior Executive Officers (continued)

Key features of the Pharmaxis Performance Rights Plan are as follows:

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position and responsibility, the employee's performance, the employee's salary, and the Pharmaxis share price.
- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The performance rights will lapse in the event the employee ceases to be an employee before the vesting date. In 2010 the Board set the vesting term as the third anniversary of the grant date. In 2012 the Board determined to vest half the performance rights two years from the grant date and the other half three years from the grant date (see comments below on 2012 grant). The Board has not imposed additional performance criteria at the point of vesting in recognition of the initial grant reflecting assessed performance, the restrictions on resale discussed below, and the current stage of the Group's development.
- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
  - for performance rights granted in 2010 shares issued upon exercise are restricted from sale for four years from grant date.
  - for performance rights granted in 2012 shares issued upon exercise are restricted from sale for three years from grant date.
  - shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

Non-executive Directors:

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee of the Board.

Based on its current year review the Board revised fees paid to Non-Executive Directors for the first time since 2006. The Board made use of generally available surveys of fees paid to independent non-executive directors by ASX listed companies in conducting the review and believes the adjusted fees are close to the average of those within the Group's sector. The changes to fees are effective 1 July 2012 and are as follows:

- a flat annual fee of $125,000 for the Chairman with no additional payments for serving on Board committees. Total fees to the Chairman are unchanged when compared to the prior two component fee structure;
- a base fee of $70,000 is paid to Non-Executive Directors other than the Chairman. The base fee previously paid was $60,000. Non-Executive Directors are permitted to package their remuneration to include superannuation;
- a flat annual fee for Non-Executive Directors (other than the Chairman) serving on committees, unchanged at $5,000 as a committee member and $10,000 as a committee chairman;
- The Company no longer pays an office allowance to the Chairman.

In addition, Non-Executive Directors are granted zero grant zero exercise priced options in the Group on first joining the Board, as discussed above.

Non-Executive Directors' fees (including statutory superannuation) are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The shareholder approved pool currently stands at a maximum of $600,000 per annum in total.

Retirement Allowances for Directors

Termination payments apply only to Executive Directors, as discussed below.

Executive Directors and Senior Executive Officers:

There are four components to the remuneration of Executive Directors and Senior Executive Officers:

- a base salary paid in cash or packaged at the executive's discretion within Australia Fringe Benefit's Tax guidelines as a total cost package. Base salaries are reviewed by the Remuneration and Nomination Committee effective 1 January each year;
- superannuation of 9 percent of base salary;
- a variable cash incentive component payable annually dependent upon achievement of performance targets set and approved by the Remuneration and Nomination Committee. Individual and overall performance targets are set by reference to the components of the Group's annual business plan for which the individual executive is responsible. The Directors believe the Group's approach to variable cash incentive is consistent with the Group's industry sector; and
- equity remuneration as discussed above.

Base pay for Senior Executive Officers is reviewed annually to ensure the executive's pay is commensurate with the responsibilities and contribution of the executive. An executive's pay is also reviewed on promotion. The typical increase in base salary at 1 January 2012 was 4%, compared to 3.5% at 1 January 2011.

Senior Executive Officers received on average 77% of their target variable cash incentive payment in 2012 compared to 0% in 2011. In assessing 2012 performance the Remuneration and Nomination Committee reviewed the performance of the Senior Executive Officers in achieving the operating targets from the Group's 2012 business plan approved by the Board in June 2011. These operating targets included the approval of Bronchitol for cystic fibrosis in Europe, the commercial launch of Bronchitol in Europe and Australia, PBS listing of Bronchitol for cystic fibrosis in Australia, filing a new drug application for Bronchitol for cystic fibrosis with the US Food and Drug Administration, licensing of the new manufacturing facility by the Australian Therapeutic Goods Administration, recruitment targets for the Phase III clinical trial of Bronchitol in bronchiectasis and progress in the development of ASM8 and other key pipeline targets. The Committee noted that the majority of these operating targets had been achieved or partly achieved, the most significant being the Marketing Approval for Bronchitol in Europe. While in prior years the performance of the Senior Executive Officers had been assessed as a team, the current review included consideration of both individual and team performance.

Termination payments

Termination payments apply only to Executive Directors and Senior Executive Officers. Employment contracts for Executive Directors and Senior Executive Officers can be terminated immediately by us for serious misconduct and with three months notice without cause. Unless otherwise required by law, no additional payments apply on termination.

Equity Remuneration

Information on the Equity Remuneration is set out in Note 32 to the Annual Financial Report included in Section 6 of this Statutory Annual Report. In assessing performance for the purposes of equity remuneration the Remuneration and Nomination Committee considers the Group's progress during the year in advancing the Group's longer term business plan objectives, in addition to annual operating targets. Longer term objectives include establishing manufacturing capacity and capability, progressing commercialisation of Bronchitol in Europe, the USA and Australia, and advancements in the Group's development pipeline, in particular Bronchitol for Bronchiectasis and ASM8.

During the current year the Committee also considered the requirement to provide an appropriate incentive for employees and Senior Executive Officers as the Group moved to a new commercial operating phase. The Committee resolved to:

- approve the vesting of all options granted under the Employee Option Plan due to vest at 30 June 2012;
- increase participation in the Performance Rights Plan to 55 employees compared to 37 employees in relation to the 2010 financial year (there were no grants of Performance Rights in relation to the 2011 financial year);

Equity Remuneration (continued)

- increase the quantity of Performance Rights granted to Senior Executive Officers and participating employees, compared to grants in relation to the 2010 financial year. A total of 2.345 million Performance Rights were granted, including 750,000 to Senior Executive Officers. The Board has also resolved to grant 200,000 Performance Rights to the Chief Executive Officer, subject to shareholder approval at the 2012 annual general meeting; and
- alter the vesting terms and resale restrictions for the current year grant.

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers

Details of the remuneration of the Directors and the Senior Executive Officers ('key management personnel' as defined in AASB 124 Related Party Disclosures) of Pharmaxis Ltd and the Group are set out in the following tables.

The Senior Executive Officers and the Chief Executive Officer of the Group and the entity are:

Name	***Position***	***Employer***
Alan Duncan Robertson	Chief Executive Officer	Pharmaxis Ltd
Brett Charlton	Medical Director	Pharmaxis Ltd
John Francis Crapper	Operations Director	Pharmaxis Ltd
Howard George Fox	Chief Medical Officer	Pharmaxis Ltd
Ian Alexander McDonald	Chief Scientific Officer	Pharmaxis Ltd
David Morris McGarvey	Chief Financial Officer and Company Secretary	Pharmaxis Ltd
Gary Jonathan Phillips	Chief Operating Officer	Pharmaxis Ltd

Included in the above are the five highest remunerated Group and entity executives.

The payment of cash bonuses to Senior Executive Officers is dependent on the satisfaction of performance conditions as discussed in Section 2.1 of this Statutory Annual Report. Options granted under the Employee Option Plan were not granted and are not vested without approval of the Remuneration and Nomination Committee. Performance Rights are not granted unless approved by the Remuneration & Nomination Committee. Other elements of remuneration are not directly related to performance.

To assist shareholders, the following table shows the actual remuneration received by Directors and Senior Executive Officers. The table sets out the base salary and superannuation, cash bonus/incentive and details of the equity remuneration (options) that vested during the year, arising from the grant of options in prior years. Vested options are able to be exercised. The table has been prepared to supplement the statutory disclosure requirements contained in the remainder of the report. The Statutory Remuneration tables attribute a value to equity grants as of the date of the grant and amortise the value over the vesting period. They also include accrued entitlements to long service leave.

Actual Remuneration Received

2012	Cash Remuneration			Details of Options Vested	
Name	Base Salary and Superannuation	Cash Bonus/ Incentive	Total Cash Remuneration	Number and Exercise Price[4]	Grant Date
Non-executive Directors					
MJ McComas[1] *Chairman*	89,167	–	89,167		
WL Delaat[2]	84,833	–	84,833	50,000 at $1.4590	23 October 2008
J Villiger	65,000	–	65,000		
R van den Broek	65,833	–	65,833		
DM Hanley[3]	106,167	–	106,167		
Executive Director					
AD Robertson	423,521	82,500	506,021	50,000 at $1.6770 200,000 at $2.4098	23 October 2008 21 October 2009
Senior Executive Officers					
B Charlton	323,256	67,163	390,419	37,500 at $1.6770 37,500 at $2.4098	12 August 2008 23 June 2009
JF Crapper	303,365	45,418	348,783	37,500 at $1.6770 37,500 at $2.4098	12 August 2008 23 June 2009
HG Fox	312,156	90,357	402,513	62,500 at $1.1980 37,500 at $2.4098	5 February 2009 23 June 2009
IA McDonald	122,068	15,985	138,053	37,500 at $1.6770 37,500 at $2.4098	12 August 2008 23 June 2009
DM McGarvey	336,454	50,356	386,810	37,500 at $1.6770 37,500 at $2.4098	12 August 2008 23 June 2009
GJ Phillips	334,632	89,090	423,722	37,500 at $1.6770 37,500 at $2.4098	12 August 2008 23 June 2009

1 MJ McComas remuneration included a one-off fee of $10,000 paid for chairing of the Due Diligence Committee formed to assist the Board in relation to the Entitlement Offer completed during the year.

2 WL Delaat remuneration included a one-off fee of $19,000 to prepare a comprehensive internal operational review of the Company's readiness to launch Bronchitol in Europe and Australia.

3 DM Hanley resigned as a Director on 30th April 2012.

4 The option exercise price was adjusted by $0.14 following the Entitlement Rights Issue during the year ended 30 June 2012 in accordance with the terms and conditions of the Employee Option Plan.

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers (continued)

Actual Remuneration Received (continued)

2011	Cash Remuneration			Details of Options Vested	
Name	Base Salary and Superannuation	Cash Bonus/ Incentive	Total Cash Remuneration	Number and Exercise Price	Grant Date
Non-executive Directors					
DM Hanley *Chairman*	127,400	–	127,400		
WL Delaat	65,000	–	65,000	50,000 at $1.5990	23 October 2008
MJ McComas	70,000	–	70,000		
J Villiger	65,000	–	65,000		
R van den Broek	65,000	–	65,000		
Executive Director					
AD Robertson	408,200	–	408,200	75,000 at $3.3890 50,000 at $1.8170	5 November 2007 23 October 2008
Senior Executive Officers					
B Charlton	311,559	–	311,559	62,500 at $3.3890 37,500 at $1.8170 37,500 at $2.5498	10 August 2007 12 August 2008 23 June 2009
JF Crapper	292,483	–	292,483	62,500 at $3.3890 37,500 at $1.8170 37,500 at $2.5498	10 August 2007 12 August 2008 23 June 2009
HG Fox	267,459	–	267,459	62,500 at $1.3380 37,500 at $2.5498	5 February 2009 23 June 2009
IA McDonald	215,356	–	215,356	62,500 at $3.3890 37,500 at $1.8170 37,500 at $2.5498	10 August 2007 12 August 2008 23 June 2009
DM McGarvey	323,982	–	323,982	62,500 at $3.3890 37,500 at $1.8170 37,500 at $2.5498	10 August 2007 12 August 2008 23 June 2009
GJ Phillips	320,260	–	320,260	62,500 at $3.3890 37,500 at $1.8170 37,500 at $2.5498	10 August 2007 12 August 2008 23 June 2009

Statutory Remuneration

2012	Short-term Benefits			Post-employment Benefits	Long-term Benefits	Share-based Payment	Total
Name	Cash Salary or Directors' fees A$	Cash Bonus/ Incentive A$	Non-Monetary Benefits A$	Super-annuation A$	Long Service Leave A$	Value[1] A$	A$
Non-executive Directors							
MJ McComas[2] *Chairman*	89,167	–	–	–	–	–	89,167
WL Delaat[3]	84,833	–	–	–	–	11,575	96,408
J Villiger	65,000	–	–	–	–	–	65,000
R van den Broek	65,833	–	–	–	–	26,299	92,132
DM Hanley[4]	97,566	–	–	8,601	–	–	106,167
Sub-total Non-executive Directors	**402,399**	**–**	**–**	**8,601**	**–**	**37,874**	**448,874**
Executive Director							
AD Robertson	388,551	82,500	–	34,970	17,286	156,887	680,194
Senior Executive Officers							
B Charlton	296,565	67,163	–	26,691	13,193	65,998	469,610
JF Crapper	278,407	45,418	–	24,958	8,701	65,998	423,482
HG Fox	287,156	90,357	–	25,000	5,549	78,928	486,990
IA McDonald	111,989	15,985	–	10,079	7,061	65,998	211,112
DM McGarvey	308,673	50,356	–	27,781	9,949	65,998	462,757
GJ Phillips	307,002	89,090	–	27,630	8,970	65,998	498,690
Totals	**2,380,742**	**440,869**	**–**	**185,710**	**70,709**	**603,679**	**3,681,709**

1 The value of share-based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share-based remuneration over the vesting period.

2 MJ McComas remuneration included a one-off fee of $10,000 paid for chairing of the Due Diligence Committee formed to assist the Board in relation to the Entitlement Offer completed during the year.

3 WL Delaat remuneration included a one-off fee of $19,000 to prepare a comprehensive internal operational review of the Company's readiness to launch Bronchitol in Europe and Australia.

4 DM Hanley resigned as a Director on 30th April 2012.

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers (continued)

Statutory Remuneration (continued)

2011	Short-term Benefits			Post-employment Benefits	Long-term Benefits	Share-based Payment	Total
Name	Cash Salary or Directors' fees A$	Cash Bonus/ Incentive A$	Non-Monetary Benefits A$	Super-annuation A$	Long Service Leave A$	Value[1] A$	A$
Non-executive Directors							
DM Hanley *Chairman*	117,079	–	–	10,321	–	–	127,400
WL Delaat	65,000	–	–	–	–	27,473	92,473
MJ McComas	70,000	–	–	–	–	–	70,000
J Villiger	65,000	–	–	–	–	–	65,000
R van den Broek	65,000	–	–	–	–	26,299	91,299
Sub-total Non-executive Directors	**382,079**	**–**	**–**	**10,321**	**–**	**53,772**	**446,172**
Executive Director							
AD Robertson	374,496	–	–	33,704	11,432	208,414	628,046
Senior Executive Officers							
B Charlton	285,834	–	–	25,725	8,726	131,651	451,936
JF Crapper	268,333	–	–	24,150	7,417	131,651	431,551
HG Fox	245,375	–	–	22,084	1,432	122,810	391,701
IA McDonald	197,574	–	–	17,782	5,638	131,651	352,645
DM McGarvey	296,377	–	–	27,605	8,494	131,651	464,127
GJ Phillips	293,816	–	–	26,444	9,793	131,651	461,704
Totals	**2,343,884**	**–**	**–**	**187,815**	**52,932**	**1,043,251**	**3,627,882**

1 The value of share-based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share-based remuneration over the vesting period.

Remuneration subject to risk

Of the total amount of remuneration paid to the Chief Executive Officer and other Senior Executive Officers, both the payment of the bonus and the granting and vesting of options (excluding sign on options) are subject to the individual employee performance. Section 2.5 of the Remuneration Report highlights the risk associated with the bonus this year.

2.3 Service Agreements with Senior Executive Officers

The following Executive Directors and Senior Executive Officers have employment agreements with the Company. Each of these agreements provides for the provision of performance-related cash incentives and participation, when eligible, in the Company's employee equity remuneration plans. These agreements also contain certain confidentiality, intellectual property and non competition provisions that serve to protect the Group's intellectual property rights and other proprietary information.

The employment agreements can be terminated by the Company without notice if for serious misconduct. For any other termination without cause, the Company is required to provide the employee three months advance notice. During the above noted notice periods, the employee is entitled to his base salary and other benefits. Upon termination, the employee is also entitled to payment of any accrued leave benefits and any other amounts payable by law.

In addition to their respective base salaries, each of the following Senior Executive Officers may be awarded an annual performance bonus upon satisfaction of certain milestones upon the sole discretion of the Remuneration and Nomination Committee.

Other material terms of each of these agreements are identified below.

Senior Executive Officer	Contract Expiry Date[1]	Annual Base Salary Effective 1 January 2012[2] $	Superannuation Contributions at 9% of Base Salary[3] $
Alan D Robertson, Ph.D., *Chief Executive Officer and Managing Director*	30 June 2014	A$396,170	A$35,655
Brett Charlton, Ph.D., *Medical Director*	30 June 2014	A$302,380	A$27,214
John F Crapper, *Operations Director*	30 June 2014	A$283,866	A$25,548
Howard G Fox, MB, BS *Chief Medical Officer*	30 June 2015	A$302,380	A$27,214
Ian A McDonald, Ph.D., *Chief Scientific Officer*	31 July 2012	A$114,184*	A$10,277
David M McGarvey, C.A., *Chief Financial Officer and Company Secretary*	30 June 2014	A$314,725	A$28,325
Gary J Phillips, *Chief Operating Officer*	30 June 2014	A$313,022	A$28,172

* Ian McDonald moved to a part-time position from 2 May 2011.

1 Subject to earlier termination by us, the terms of a Senior Executive Officer's employment will last until the date stated, unless the term of the employment agreement is either extended or the Senior Executive Officer enters into a new employment agreement with us;

2 Annual base salaries may be subject to increase upon review annually by the Remuneration and Nomination Committee; and

3 The Company makes superannuation fund contributions equal to 9% of the annual base salary per year for the benefit of the Senior Executive Officers.

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers

Equity Granted to Directors and Senior Executive Officers

Equity Remuneration is described in Note 32 to the Annual Financial Report included in Section 6 of this Statutory Annual Report.

Grants of Equity under the Employee Option Plan

Options were granted under the Employee Option Plan until October 2009. For options granted to Senior Executive Officers and employees after 01 January 2003 the annual vesting is subject to approval by the Remuneration and Nomination Committee of the Board. The Committee gives its approval for vesting based on the achievement of individual employee's personal annual objectives.

The terms and conditions of each grant of options affecting remuneration of Directors and Senior Executive Officers in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise Price[1]	Value per option at grant date	Number of options granted	Number of options grantees	Date exercisable
23 October 2008	22 June 2018	$1.4590	$0.8537	200,000	1	25% at each of 30 June 2009, 2010, 2011 and 2012, subject to Remuneration and Nomination Committee annual approval.
12 August 2008	11 August 2018	$1.6770	$1.0064	750,000	5	25% at each of 30 June 2009, 2010, 2011 and 2012, subject to Remuneration and Nomination Committee annual approval.
23 October 2008	11 August 2018	$1.6770	$0.9701	200,000	1	25% at each of 30 June 2009, 2010, 2011 and 2012, subject to Remuneration and Nomination Committee annual approval.
5 February 2009	4 February 2019	$1.1980	$0.6949	250,000	1	25% at each of 30 June 2010, 2011, 2012 and 2013, subject to Remuneration and Nomination Committee annual approval.
23 June 2009	22 June 2019	$2.4098	$1.3873	900,000	6	25% at each of 30 June 2010, 2011, 2012 and 2013, subject to Remuneration and Nomination Committee annual approval.
21 October 2009	22 June 2019	$2.4098	$1.4660	200,000	1	100% at 30 June 2012, subject to Remuneration and Nomination Committee annual approval.

1 The option exercise price was adjusted by $0.14 following the Entitlement Rights Issue during the year ended 30 June 2012 in accordance with the terms and conditions of the Employee Option Plan.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

The Pharmaxis Corporate Governance Framework prohibits Directors and Senior Executive Officers from trading in Pharmaxis derivatives.

Grants of Equity to Non-Executive Director

The terms and conditions of each grant of equity affecting remuneration of Directors and Senior Executive Officers in this or future reporting periods are as follows:

Subsequent to receipt of shareholder approval on 21 October 2009, the Group issued 30,000 restricted shares to a Non-executive Director, Mr. Richard van den Broek on the following terms:

Issue date	21 October, 2009
Number of restricted shares	30,000
Grant consideration	Nil
Value at grant date	$78,897
Restrictions	• The shares are restricted from sale by the Director without prior Board approval • The shares are further restricted from sale by the Director for three years from the date of the Director's initial appointment (7 April 2009)
Forfeiture	The restricted shares are forfeited should the Director cease to be a Director before the three year post issue period expires

On 9 August 2012 the Board resolved to grant zero consideration, zero exercise priced options to Dr. Simon Buckingham, a newly appointed director, subject to shareholder approval at the 2012 annual general meeting, on the following terms:

Grant date	Immediately subsequent to shareholder approval
Number of zero consideration, zero exercise price options	30,000
Grant consideration	Nil
Exercise price	Nil
Vesting	The third anniversary of grant provided the Director is still in office
Restrictions	Shares issued on exercise of the options are restricted from sale by the Director without prior Board approval

Grants of Equity under the Employee Performance Rights Plan

For performance rights granted to Senior Executive Officers and nominated employees the Board has not imposed additional performance criteria at the point of vesting in recognition of the initial grant reflecting assessed performance, the three year vesting period (subject to continuing employment) and the subsequent restrictions on exercise and sale of Pharmaxis Ltd shares issued upon exercise.

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers (continued)

The terms and conditions of each grant of performance rights affecting remuneration of Directors and Senior Executive Officers in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise Price	Value per performance right at grant date	Number of performance rights granted	Number of options grantees	Vesting date[1]
7 September 2010	6 September 2020	$ Nil	$1.96	240,000	6	100% at 6 September 2013
20 October 2010	6 September 2020	$ Nil	$2.76	50,000	1	100% at 19 October 2013
29 June 2012	28 June 2022	$ Nil	$1.025	750,000	5	50% at 29 June 2014 and 50% at 29 June 2015

1 Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the board.

Equity Grants in 2012 to Directors and Senior Executive Officers

Options

Details of options over ordinary shares and restricted shares provided as remuneration to each Director and each Senior Executive Officer is set out below. The granting of further options under the Employee Option Plan was discontinued from October 2009. Options granted before that date remain in place and when exercisable, each option is convertible into one ordinary share. Options were issued at a zero purchase price. Vesting details are set out in the subsequent table. Further information on the options is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 32 to the Annual Financial Report in Section 6 of this Statutory Annual Report.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, and the risk free interest rate for the term of the option.

Name	Options granted during the year				Number of options vested during the year	
	2012			2011	**2012**	2011
	Expiration Date	Exercise Price	Number	Number		
Directors of Pharmaxis Ltd						
MJ McComas *Chairman*	–	–	–	–	–	–
AD Robertson *Chief Executive Officer*	–	–	–	–	**250,000**	125,000
DM Hanley	–	–	–	–	–	–
J Villiger	–	–	–	–	–	–
WL Delaat	–	–	–	–	**50,000**	50,000
R van den Broek	–	–	–	–	–	–
Senior Executive Officers						
B Charlton	–	–	–	–	**75,000**	137,500
JF Crapper	–	–	–	–	**75,000**	137,500
HG Fox	–	–	–	–	**100,000**	100,000
IA McDonald	–	–	–	–	**75,000**	137,500
DM McGarvey	–	–	–	–	**75,000**	137,500
GJ Phillips	–	–	–	–	**75,000**	137,500

Performance Rights

Details of performance rights over ordinary shares provided as remuneration to each Director and each Senior Executive Officer is set out below. When exercisable, each performance right is convertible into one ordinary share. Performance rights are issued at a zero purchase price. Vesting details are set out in the subsequent table. Further information on the performance rights is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 32 to the Annual Financial Report in Section 6 of this Statutory Annual Report.

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below. Fair value at grant date is assessed using the closing share price on the date of grant.

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers (continued)

Name	Performance rights granted during the year				Number of rights vested during the year	
	2012			2011	**2012**	2011
	Expiration Date	**Exercise Price**	**Number**	Number		
Directors of Pharmaxis Ltd						
MJ McComas *Chairman*	**–**	**–**	**–**	–	**–**	–
AD Robertson *Chief Executive Officer*	**–**	**–**	**(1)**	50,000	**–**	–
DM Hanley	**–**	**–**	**–**	–	**–**	–
J Villiger	**–**	**–**	**–**	–	**–**	–
WL Delaat	**–**	**–**	**–**	–	**–**	–
R van den Broek	**–**	**–**	**–**	–	**–**	–
Senior Executive Officers						
B Charlton	**28 June 2022**	**–**	**150,000**	40,000	**–**	–
JF Crapper	**28 June 2022**	**–**	**150,000**	40,000	**–**	–
HG Fox	**28 June 2022**	**–**	**150,000**	40,000	**–**	–
IA McDonald	**28 June 2022**	**–**	**–**	40,000	**–**	–
DM McGarvey	**28 June 2022**	**–**	**150,000**	40,000	**–**	–
GJ Phillips	**28 June 2022**	**–**	**150,000**	40,000	**–**	–

1 The directors have resolved to grant 200,000 performance rights to AD Robertson under the Company's employee option plan. The grant requires shareholder approval which will be sought at the annual general meeting of the Company, and if granted, reflected in the year ended 30 June 2013.

Shares Provided on Exercise of Remuneration Options

Name	Date of grant of options	Amount paid per share on exercise	Ordinary shares issued on exercise of options during the year	
			2012	2011
Directors of Pharmaxis Ltd				
MJ McComas	4 July 2003	$0.3125	**100,000**	100,000
AD Robertson	12 May 2003	$0.1725	**960,000**	–
DM Hanley	1 September 2001	$0.3125	**640,000**	–
DM Hanley	12 May 2003	$0.1725	**400,000**	–
Senior Executive Officers of the Group				
B Charlton	12 May 2003	$0.1725	**300,000**	100,000
DM McGarvey	12 May 2003	$0.1725	**480,000**	–
G Phillips			**–**	190,000
HG Fox			**–**	62,500

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers

Details of Director and Senior Executive Officer Remuneration: Cash Bonuses and Options

For each cash bonus and grant of options included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The options vest over four years, provided the vesting conditions are met. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the portion of the grant date fair value that has not been expensed as at 30 June 2012.

	Cash bonus		Options					
Name	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
DM Hanley	–	–	–	–	–	–	–	–
AD Robertson	75	25	–	–	–	–	–	–
MJ McComas	–	–	–	–	–	–	–	–
J Villiger	–	–	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–	–	–
B Charlton[1]	75	25	2009	25	–	2013	–	12,935
JF Crapper	80	20	2009	25	–	2013	–	12,935
HG Fox[1]	75	25	2009 2009	25 25	– –	2013 2013	– –	12,935 9,871
IA McDonald	70	30	2009	25	–	2013	–	12,935
DM McGarvey	80	20	2009	25	–	2013	–	12,935
GJ Phillips[1]	85	15	2009	25	–	2013	–	12,935

1 Senior Executive Officer also paid a one-off bonus in relation to the successful review of the European CHMP recommendation in relation to the Bronchitol marketing application

The Remuneration and Nomination Committee has determined that performance targets set by the Committee in relation to options vesting at 30 June 2012 have been achieved by all executives.

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers (continued)

Details of Director and Senior Executive Officer Remuneration: Performance Rights

Performance rights granted in 2011 will vest 100% three years from the date of grant (2014) provided the Senior Executive Officer remains an employee of the Group. Performance rights granted in 2012 will vest 50% two years from the date of grant (2014) and 50% three years from the date of grant (2015), provided the Senior Executive Officer remains an employee of the Group at the relevant vesting date. Unvested performance rights will lapse in the event the Senior Executive Officer ceases to be an employee before the relevant vesting date. The maximum value of the performance rights yet to vest has been determined as the portion of the grant date fair value that has not been expensed as at 30 June 2012.

	Performance Rights					
Name	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
MJ McComas	–	–	–	–	–	–
AD Robertson	2011	–	–	2014	–	46,000
J Villiger	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–
DM Hanley	–	–	–	–	–	–
B Charlton	2011 2012	–	–	2014 2014 to 2015	–	52,267 153,750
JF Crapper	2011 2012	–	–	2014 2014 to 2015	–	52,267 153,750
HG Fox	2011 2012	–	–	2014 2014 to 2015	–	52,267 153,750
IA McDonald	2011	–	–	2014	–	26,133
DM McGarvey	2011 2012	–	–	2014 2014 to 2015	–	52,267 153,750
GJ Phillips	2011 2012	–	–	2014 2014 to 2015	–	52,267 153,750

Share-Based Compensation Paid to Directors and Senior Executive Officers: Options

Further details relating to options granted to Directors and Senior Executive Officers are set out below.

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
DM Hanley	–	–	754,136	–
AD Robertson	–	–	823,200	–
MJ McComas	–	–	84,880	–
WL Delaat	–	–	–	–
J Villiger	–	–	–	–
R van den Broek	–	–	–	–
B Charlton	–	–	258,725	–
JF Crapper	–	–	–	–
HG Fox	–	–	–	–
IA McDonald	–	–	–	–
DM McGarvey	–	–	501,600	–
GJ Phillips	–	–	–	–

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The difference between the market price of shares and the exercise price of options at exercise date that were granted as part of remuneration IN PRIOR YEARS and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers (continued)

Share-Based Compensation Paid to Directors and Senior Executive Officers: Performance Rights

Further details relating to performance rights granted to Directors and Senior Executive Officers are set out below.

Name	A Remuneration consisting of performance rights	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
DM Hanley	–	–	–	–
AD Robertson	–	–	–	–
MJ McComas	–	–	–	–
WL Delaat	–	–	–	–
J Villiger	–	–	–	–
R van den Broek	–	–	–	–
B Charlton	28%	153,750	–	–
JF Crapper	31%	153,750	–	–
HG Fox	27%	153,750	–	–
IA McDonald	–	–	–	–
DM McGarvey	28%	153,750	–	–
GJ Phillips	26%	153,750	–	–

A = The percentage of the value of remuneration consisting of performance rights, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of performance rights granted during the year as part of remuneration.

C = The difference between the market price of shares and the exercise price of performance rights at exercise date that were granted as part of remuneration IN PRIOR YEARS and were exercised during the year.

D = The value at lapse date of performance rights that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Loans to Directors and executives

Nil. Not permitted under Pharmaxis Corporate Governance Framework

2.6 Equity Remuneration

Shares Under Equity Plans

Total unissued ordinary shares under equity plans at the date of this report are as follows:

Date options granted	Number
Total unissued ordinary shares under plans at 30 June 2012– refer Note 32 to the Annual Financial Report included in Section 6 of this Statutory Annual Report	11,821,740
Options exercised (shares issued) during the period from 1 July 2012 to 9 August 2012	(180,000)
	11,641,740

No option or performance right holder has any right to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options

The following ordinary shares were issued during the year ended 30 June 2012 on the exercise of options granted under the Employee Option Plan. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
1 September 2001	$0.3125	640,000
12 May 2003	$0.1725	2,140,000
4 July 2003	$0.3125	100,000
		2,880,000

Shares issued on the exercise of performance rights and zero exercise priced share plan

There were no ordinary shares issued during the year ended 30 June 2012 on the exercise of performance rights granted under the Performance Rights Plan or zero exercise priced option share plan.

3 Corporate Governance

3.1 Introduction

Pharmaxis has adopted a Corporate Governance Framework. In preparing the framework, the Company has used the Revised Corporate Governance Principles and Recommendations with 2010 Amendments (second edition) issued by ASX Limited's Corporate Governance Council ('ASX Governance Principles'). Departures from the recommendations are required to be disclosed in our Statutory Annual Report.

From 1 July 2010 the Listing Rules of the ASX mandated share trading policies for all listed companies. Pharmaxis Share Trading Policy forms part of its Corporate Governance Framework and is available on the Company website.

The Board reviews and updates the Corporate Governance Framework as required and at least annually.

This statement reflects the Corporate Governance Framework, policies and procedures as at 9 August 2012. The documents referred to in this section, are available in the corporate governance section of the Pharmaxis website (unless otherwise stated) at www.pharmaxis.com.au.

3.2 ASX Disclosures

A description of the Pharmaxis Corporate Governance Framework and supporting policies are available on the Company website. The disclosures required by the ASX Governance Principles are set out below. For ease of reference, this section is structured within the context of the ASX Governance Principles.

Principle 1: Lay Solid Foundations for Management and Oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

Recommendation 1.1
Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

This is disclosed on the Company website.

Recommendation 1.2 & 1.3
Companies should disclose the process for evaluating the performance of senior executives and provide the information required in the guide to Principle 1.

The performance of Senior Executive Officers was evaluated in the current year in accordance with the process described below.

The Remuneration and Nomination Committee is specifically responsible for reviewing the ongoing performance of the Chief Executive Officer ('CEO') and ensuring there is an appropriate process to review the performance of Senior Executive Officers and for setting and approving performance objectives of Senior Executive Officers in relation to bonus payments and options. In June of each year the Remuneration and Nomination Committee:

- approves individual milestone objectives for the CEO and Senior Executive Officers for the coming financial year, the milestones being based on the business plan approved by the Board;
- evaluates the performance of the CEO compared to milestone objectives set at the beginning of the year and approves the payment of any bonus and/or the grant and vesting of any options related to the CEO's performance;
- in relation to Senior Executive Officers, reviews recommendations, considers and approves the payment of any bonus and/or the grant and vesting of any options based on performance of milestone objectives for the current financial year.

Principle 2: Structure the Board to Add Value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties

Recommendation 2.1
A majority of the board should be independent directors.

The Board of Directors currently consists of six directors, including five non-executive directors, one of whom is the non-executive chairman. Details of the skills, experience and expertise of directors are set out in the Section 1.1 of this Statutory Annual Report.

The Company's five non-executive Directors, Messrs. Buckingham, Delaat, McComas, van den Broek and Villiger are regarded as independent for the purposes of the ASX Governance Principles. The Board regularly assesses director independence having regard to the criteria outlined in the ASX Governance Principles. In relation to Directors serving on the Audit Committee, the Director and/or their associates may not receive any fees from the Company other than those related to Director or Committee fees.

Dr. Robertson is not regarded as an independent Director as he is an executive officer.

The Board has an agreed procedure for Directors and Board Committees to obtain independent professional advice at the Company's expense.

Recommendation 2.2
The chair should be an independent director.

The Chairman of the Board is an independent director. The Corporate Governance Framework requires the Chairman to be independent.

Recommendation 2.3
The roles of the chair and the chief executive officer should not be exercised by the same individual.

The role of Chairman and Chief Executive Officer are exercised by different individuals. The Corporate Governance Framework requires the Chairman to be a different individual to the Chief Executive Officer.

Recommendation 2.4
The board should establish a nomination committee.

Pharmaxis has a Remuneration and Nomination Committee. The combined role is considered appropriate for a company of our size. A copy of the Remuneration and Nomination Committee Charter is available on the Pharmaxis website. The purpose of the Remuneration and Nomination Committee is:

- monitor the ongoing development of the Board consistent with the growth and development of the Company;
- make recommendations for the appointment and removal of Directors to the Board;
- assist the Board evaluate the performance and contribution of individual directors, the Board and Board Committees; and
- assist the Board in establishing remuneration policies and practices that enable us to attract, retain and motivate executives and Directors who will pursue the long-term growth and success of Pharmaxis.

The Remuneration and Nomination Committee consisted entirely of independent directors. The chairman of the Remuneration and Nomination Committee is an independent Director.

The names of the members of the Remuneration and Nomination Committee, the number of meetings held in the financial year ended 30 June 2012 and the number of meetings attended by each member is detailed in Section 1.2 of this Statutory Annual Report.

3.2 ASX Disclosures (continued)

Recommendation 2.5

Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Remuneration and Nomination Committee is responsible for overseeing the process for evaluating the performance of the Board, Board Committees and individual Directors. Evaluations were conducted in the current year in accordance with the process described below.

The Remuneration and Nomination Committee conducts an annual survey of Directors.

A Board performance survey is used to:

- review the Company's current corporate governance practices and identify any requirements that required to be changed;
- review the respective roles of the Board and management;
- review the mix of experience and skills required by the Board;
- assess the performance of the Board as a whole over the previous 12 months
- assess the effectiveness of Board processes; and
- examine ways of assisting the Board in performing its duties more effectively and efficiently.

The Board performance surveys are collated by the Company Secretary and discussed at a subsequent Board meeting where the implementation of recommendations is agreed

Board committee performance is assessed using a Board performance survey. Individual committees are then asked to:

- review recommendations and comments arising from the survey and implement changes considered appropriate; and
- review their committee charter annually, and recommend changes to the Board.

Review of individual director performance is considered and assessed by the relevant Board or Committee chair.

Principle 3: Promote Ethical and Responsible Decision-making

Companies should actively promote ethical and responsible decision-making

Recommendation 3.1

Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reporting and investigating reports of unethical practices.

A copy of the Code of Conduct is available on the Pharmaxis website.

Recommendation 3.2

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

A copy of the Diversity Policy is available on the Pharmaxis website.

Recommendation 3.3
Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Company's Diversity Policy was first adopted by the Board in June 2011. The Board is aware of the difficulty of achieving diversity across all areas of a company with a relatively small workforce such as Pharmaxis, but considers the diversity achieved to date to be a favourable endorsement of the company's existing policies. In adopting the Diversity Policy in 2011 the Board noted its expectation that the female representation in the Senior Executive Officers and Non-Executive Directors to be above 30% within five years, while maintaining the approximate 50% female representation then existing across most other levels of the Company and the Company in total. Key to this expectation was the assumption of continuation of the Company's existing recruitment policies and growth in both the business and the total number of employees.

In reviewing progress during the current year the Board noted:

- Female employees continue to comprise just over 50% of total employees.
- New hires during the year were approximately half female, and this was across all employee groupings.
- In each employee grouping the average salary paid to male and female employees is within 6% of the average for that grouping. Comparison of averages from year to year is difficult due to the small total employee population and in the current year by the impact of new hires for sales and marketing positions outside of Australia.
- Employees working on a part time basis increased from nine percent to twelve percent of the workforce – demonstrating the Company's commitment to flexible work conditions where this is not inconsistent with the requirements of the position. All employee groupings below have at least one part time employee. Over ninety percent of part time employees are female.
- While Pharmaxis does not record racial or other employee diversity background data, the company continues to have a varied mix of ethnic and cultural backgrounds across the workforce.

Recommendation 3.4
Companies should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board

Pharmaxis gender diversity statistics are as follows:

Employee Numbers	**2012 (30 April)**		**2011 (28 February)**	
	Male	**Female**	**Male**	**Female**
Non-executive directors	5	0	5	0
Senior managers[1]	8	0	7	0
Direct reports to senior managers	10	8	10	7
Other managers[2]	14	15	4	8
Other employees	37	53	47	55
Total employees	**69**	**76**	**68**	**70**

Notes:

1 Includes Chief Executive Officer

2 This group of employees participates in the Pharmaxis Performance Rights Plan together with the Senior Executive Officers and their Direct Reports. Twenty five percent of this group work on a part time basis

3.2 ASX Disclosures (continued)

Principle 4: Safeguard Integrity in Financial Reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting

Recommendation 4.1
The board should establish an audit committee

Pharmaxis has an Audit Committee.

Recommendation 4.2
The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members

The structure of the Audit Committee complies with the above recommendation. The Audit Committee is responsible for:

- the integrity of the financial reporting process and all other financial information published by the us;
- the integrity of the Group's financial reporting system, including the management of risk and systems of internal control;
- the internal and external audit process, including appointing the external auditor and overseeing the independence of the external auditor; and
- the Group's process for monitoring compliance with laws and regulations and the Pharmaxis Code of Conduct.

The names of the members of the Audit Committee, their qualifications, the number of meetings held in the financial year ended 30 June 2012 and the number of meetings attended by each member is detailed in Section 1.2 of this Statutory Annual Report.

Recommendation 4.3
The audit committee should have a formal charter

The Audit Committee Charter is available on the Pharmaxis website. The Audit Committee Charter provides information on procedures for the selection and appointment of the external auditor.

Principle 5: Make Timely and Balanced Disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the company

Recommendation 5.1
Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

Pharmaxis has a Continuous Disclosure and Shareholder Communications Policy, which is available on the Company's website.

Pharmaxis has a Disclosure Committee to oversee the implementation of the policies and procedures in relation to communications with the market.

The Disclosure Committee consists of the:

- Chief Executive Officer;
- Chief Financial Officer/Company Secretary;
- Chairman of the Board;
- Medical Director;
- Chief Medical Officer; and
- Chief Operating Officer.

Principle 6: Respect the Rights of Shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights

Recommendation 6.1
Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The Continuous Disclosure and Shareholder Communication Policy is available on the Pharmaxis website. In addition to continuous disclosure and statutory reporting requirements, the Company provides shareholders with quarterly updates of progress across all areas of the business and utilise Pharmaxis website to disclose useful and relevant information about the Company.

Principle 7: Recognise and Manage Risk

Companies should establish a sound system of risk oversight and management and internal control

Recommendation 7.1
Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The Audit Committee is responsible to the Board for oversight of material business risks and internal controls.
The Risk Management Statement is available on the Pharmaxis website and provides an overview of our risk profile, management strategies and internal controls.

Recommendation 7.2
The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks

The Audit Committee, as part of its oversight in this area, requires management to establish appropriate systems and procedures to manage material business risks and to report on the effective management of those risks. Management has provided the Board in the current year with a report that attested to the effective management of material business risks.

Recommendation 7.3
The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

This recommendation is a requirement of the Corporate Governance Framework. The Board has received such assurances in writing from the chief executive officer and chief financial officer.

Principle 8: Remunerate Fairly and Responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendation 8.1
The board should establish a remuneration committee

Pharmaxis has a Remuneration and Nomination Committee. A copy of the Remuneration and Nomination Committee Charter is available on the Pharmaxis website.

3.2 ASX Disclosures (continued)

Recommendation 8.2

The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least three members

The structure of the Pharmaxis Remuneration and Nomination Committee complies with the above recommendation. The Remuneration and Nomination Committee consists exclusively of independent directors. None of the Non-Executive Directors serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on the Board of Directors or Remuneration and Nomination Committee.

Recommendation 8.3

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

As Non-Executive Directors assess individual and Company performance, their remuneration does not have any variable incentive component. Only the Executive Director and Senior Executive Officer remuneration includes a variable component linked to the achievement of performance targets.

Note that Directors, Senior Executive Officers and other persons designated by the Board are not permitted to trade in derivatives of Pharmaxis securities or enter into transactions which operate to limit the economic risk of holding unvested securities in Pharmaxis. For further details in relation to our remuneration framework, refer to the Remuneration Report set out in Section 2 of this Statutory Annual Report.

4 Senior Management

Executive Director and Senior Executive Officers

Information about Executive Director and Senior Executive Officers as of 9 August 2012.

Alan D. Robertson, Ph.D., Refer to Directors' Report.

Brett Charlton, Ph.D., (aged 56) is a co-founder of Pharmaxis and has been Medical Director since June 1998 and was a member of the Board of Directors from June 1998 to March 2006. Dr. Charlton is the author of more than 60 scientific papers and has over 15 years of experience in clinical trial design and management. Dr. Charlton was founding Medical Director of the National Health Sciences Centre and established its Clinical Trials Unit. Prior to joining us, Dr. Charlton held various positions with the Australian National University, Stanford University, the Baxter Centre for Medical Research, Royal Melbourne Hospital, and the Walter and Eliza Hall Institute. Dr. Charlton holds a M.B.B.S. with honors from the University of New South Wales and a Ph.D. from the University of New South Wales.

*John F. Crapper (*aged 60) has been Operations Director since July 2003. Mr. Crapper has over three decades of experience in manufacturing and operations. From 1987 to 2003, Mr. Crapper held various positions within the Memtec Limited/Memcor organization most recently as Senior Vice-President and General Manager of Memcor International, and Managing Director of Memcor Australia Pty Ltd, a leader in the design and manufacture of microfiltration membranes and systems. During his 15 years at Memcor, Mr. Crapper managed the scale-up of manufacturing equipment and processes from the Company's research and development group, created full-scale production operations, and managed the establishment of Quality Assurance and Enterprise Resource Planning systems. From 1980 to 1987, Mr. Crapper served as Operations Director of the Animal Health Division at Syntex Pharmaceutical. From 1971 to 1980, Mr. Crapper served as Production Manager at VR Laboratories, a private veterinary pharmaceutical company. Mr. Crapper holds a B.S. in Applied Chemistry from the University of Technology, Sydney and an M.B.A from Macquarie University.

Howard G. Fox (aged 49) has been Chief Medical Officer since February 2009. Dr. Fox has responsibility for regulatory affairs, pharmacovigilance and medical affairs. Dr. Fox has more than 15 years experience in the international pharmaceutical industry, the last ten of which have been in respiratory product development. He was most recently with Novartis as a Global Brand Medical Director and previously held the positions of Senior Clinical Research Physician and Principle Medical Expert for Novartis.

Ian A. McDonald, Ph.D., (aged 65) has been Chief Scientific Officer since September 2006, having previously served as Chief Technical Officer from his joining us in April 2005. Dr. McDonald has over 25 years of experience in managing drug discovery and design teams in Europe and the U.S. From 2002 to 2004, Dr. McDonald served as Vice President of Drug Discovery at Structural GenomiX, Inc. (now SGX Pharmaceuticals Inc.). From 2001 to 2002, Dr. McDonald served as Vice President of Drug Discovery at Structural Bioinformatics Inc. (now Cengent Therapeutics). From 1993 to 2000, Dr. McDonald served as Director, then Vice President of Chemistry at SIBIA Neuroscience (now part of Merck Research Laboratories) and was responsible for medicinal and bio-chemistry research. From 1978 to 1993, Dr. McDonald served in various capacities as a research chemist at Merrell Dow (now part of Sanofi-Aventis). Dr. McDonald is the co-inventor of 39 U.S. patents and co-author of 77 peer-reviewed manuscripts and book chapters. Dr. McDonald holds B.S. and Ph.D. degrees in Organic Chemistry from the University of Western Australia. Dr. McDonald has been employed on a part time basis from 2 May 2011.

David M. McGarvey, C.A., C.P.A., (aged 56) has been Chief Financial Officer and Company Secretary since December 2002. Mr. McGarvey has twenty five years experience in overseeing the financial affairs of different Australian companies. From 1998 to 2002, Mr. McGarvey served as Chief Financial Officer of the Filtration and Separations Group of U.S. Filter. From 1985 to 1997, Mr. McGarvey served as Chief Financial Officer of Memtec Limited. While at Memtec, Mr. McGarvey oversaw the U.S. listing of Memtec on the Nasdaq Global Market and the New York Stock Exchange and managed numerous international merger and acquisition transactions, including the acquisition of Memtec by U.S. Filter. From 1975 to 1985, Mr. McGarvey held various positions at PricewaterhouseCoopers. Mr. McGarvey holds a B.A. in Accounting from Macquarie University and was admitted to the Institute of Chartered Accountants in Australia in 1981, and to the membership of CPA Australia in 1993.

4 Senior Management (continued)

Gary J. Phillips (aged 51) has been Chief Operating Officer since June 2008, having previously served as Commercial Director from his joining us in December 2003. Mr. Phillips has over two decades of operational management experience in the pharmaceutical and healthcare industry in Europe, Asia and Australia. From 1998 to 2003, Mr. Phillips held various positions within Novartis Asia, most recently as Chief Executive Officer of Novartis Pharmaceuticals Australia Pty Ltd, where he successfully launched leading oncology and ophthalmology products and relaunched newly acquired primary care products. From 1992 to 1998, Mr. Phillips served as Chief Executive Officer at Ciba Geigy in Hungary. Mr. Phillips holds a B. Pharm. in Pharmacy with honors from Nottingham University in the U.K. and an M.B.A. from Henly Management College.

5 Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements based upon current expectations that involve risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements. The Company's financial year ends on 30 June.

5.1 Operating Results

Overview

Pharmaxis is a specialty pharmaceutical company focused on the development of human healthcare products to treat and manage respiratory diseases. The Company is most advanced in the development of products for asthma, cystic fibrosis and bronchiectasis.

Pharmaxis was incorporated in May 1998 and in October 1999 obtained a license to a series of patents in the autoimmune area owned by the Australian National University, or ANU. The Company issued 11.2 million ordinary shares valued at A$1.4 million to acquire the license. The Company's area of focus remained the autoimmune diseases area until October 2001 when it licensed a series of patents from the Sydney South West Area Health Service, or SSWAHS, covering new treatments for chronic lung diseases and for the measurement of lung function. The license with the ANU requires Pharmaxis to pay royalties based on sales revenue for products incorporating the licensed technology. Current projects do not fall within the scope of the license with the ANU. The license agreement with the SSWAHS requires the Company to pay royalties based on gross profit on product sales for products incorporating the licensed technology. The Pharmaxis products Aridol and Bronchitol fall within the scope of the SSWAHS license.

During the current year the Company completed recruitment of a Phase III trial with Bronchitol for bronchiectasis, for which the clinical trial protocol was agreed with both the US FDA and the European Medicines Agency.

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

The key milestones achieved during the year were:

1. 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.'
2. The official launch of Bronchitol was in the first countries of the European Union in June 2012.
3. The recommendation from the Australian Pharmaceutical Benefits Advisory Committee that Bronchitol should be listed on the Australian Pharmaceutical Benefits Scheme securing reimbursement for patients in Australia.

The Company has two early stage research projects (ASM8 and PXS25) which have commenced clinical evaluation, targeting asthma and pulmonary fibrosis respectively. The Company's research and development programs have been designed to produce a series of products for world markets over the coming years.

5.1 Operating Results (continued)

Research and Development

Research and development expenses consist primarily of salaries and related employee benefits, costs associated with clinical trials, non-clinical activities such as toxicology testing and scale-up synthesis, regulatory and medical activities, the manufacture of material for clinical trials, development of manufacturing processes and research-related overhead expenses. The most significant costs are for clinical trials, preclinical development and regulatory filings. These expenses include regulatory consultants, clinical material and supplies, and payments to external vendors such as hospitals, contract research organisations and investigators. All research and drug development costs are expensed as they are incurred.

Research and development expenses are classified into three components:

1. Drug discovery and development. The unit focuses on respiratory drug discovery, with the development arm managing the outsourced safety/toxicology studies of lead compounds.
2. The clinical trials group, which designs and monitors our clinical trials. Regulatory and medical activities are associated with this group and are responsible for product registrations.
3. The Australian Therapeutic Goods Administration, or TGA, registered manufacturing facilities which are primarily focused on producing material for clinical trials, producing and analyzing material in support of regulatory filings and developing enhanced manufacturing processes. It is therefore classified as research and development expenditure in 2012.

The Company makes determinations as to which research and development projects to pursue and how much funding to direct to each project on an on-going basis in response to the scientific and clinical success of each product candidate and available funds.

Administration

Administration expenses consist primarily of salaries, related expenses, professional service fees and includes accounting, administration, office and public company costs. The Company anticipates that administration expenses will increase as a result of the expected expansion of operations, facilities and other activities associated with the planned growth of the business.

Commercial

Commercial expenses consist of salaries and professional fees related to the sale of Aridol and Bronchitol. Commercial expenses have increased as the Company launched Bronchitol in Europe, continues to invest in Aridol in the United States and other key jurisdictions, and incurs other selling and marketing costs.

Finance Costs

Finance costs represent the ongoing finance charge associated with the capitalised finance lease of our corporate manufacturing facility at Frenchs Forest.

5.2 Review of 2012 Operations

Bronchitol

The Group has developed Bronchitol for the management of chronic obstructive lung diseases including cystic fibrosis and bronchiectasis. 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.

Significant events during the year included:

- In October 2011 the CHMP adopted a positive opinion recommending the granting of a Marketing Authorisation for Bronchitol for the treatment of cystic fibrosis in adults as an add-on therapy to best standard of care. This outcome was subsequent to a detailed submission requesting re-examination of its earlier negative opinion.
- In December 2012 the Company completed recruitment of its pivotal Phase III trial with Bronchitol in bronchiectasis. The trial has involved 485 subjects in close to 100 hospitals all around the world. Subjects who enter the trial are treated for 12 months and the principle objective is to show that Bronchitol can reduce exacerbations for people with bronchiectasis. There are a number of additional outcomes that will be measured including lung function and sputum production. The last patient should finish the trial in early 2013 and the data will be available shortly thereafter.
- In April 2012 the European Commission granted the Company a marketing authorisation for Bronchitol and the Company officially launched Bronchitol for cystic fibrosis in the United Kingdom and Germany in June 2012.
- In June 2012 the Australian Federal Government announced that Bronchitol will be listed on the Australian Pharmaceutical Benefits Scheme, subsequent to a recommendation for listing by the government's expert advisory body the Pharmaceutical Benefits Advisory Committee in March 2012.
- In May 2012 the Company submitted a New Drug Application to the US Food and Drug Administration (FDA) seeking approval for Bronchitol for the management of cystic fibrosis in patients 6 years and older to improve pulmonary function. The FDA has previously granted Bronchitol Orphan Drug designation for the treatment of patients with cystic fibrosis.
- At the European Cystic Fibrosis Meeting in June 2012 held in Ireland the Company presented a more detailed analysis of its two Phase 3 clinical studies of Bronchitol showing a reduction in exacerbations in all age groups of cystic fibrosis patients.

Aridol

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

The key focus for the growth of 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.

Korea is the other Aridol growth market where sales increased 82 percent in 2012.

Other

Other key milestones for the Group during the year included:

- The Company undertook a pro rata, accelerated non-renounceable entitlement offer comprising an institutional component and a retail component. The Company issued approximately 76.4 million ordinary shares and raised approximately $76.1 million (net of related transaction costs).
- The Company completed an exploratory Phase IIa trial with ASM8 in patients with allergic asthma.
- Drug candidate PXS4728A entered formal preclinical safety testing. PXS4728A has been shown in preclinical studies to have potential applications in inflammatory lung diseases such as asthma and COPD, inflammatory eye disease such as macular degeneration, fibrosis—particularly of the liver following cirrhosis and complications associated with diabetes. In addition, studies are in progress to determine its potential in treating certain forms of cancer.
- The Company's long serving Chairman Mr. Denis Hanley AM retired from the Board of Directors effective 30 April 2012. The Board appointed existing director Mr. Malcolm McComas as the new Chairman.

5.3 Results of Operations

Sales and Gross Profit

Year ended 30 June	2012 A$	2011 A$
In thousands		
Australia	**269**	253
Europe	**336**	398
Korea	**373**	205
United States	**353**	54
	1,331	910

The above table includes $16,000 of Bronchitol sales in Europe subsequent to its commercial launch in June 2012.

Gross profit was approximately 61 percent and 62 percent of sales in 2012 and 2011 respectively.

Other revenue – interest. Interest income decreased from A$3.1 million in 2011 to A$3.0 million in 2012.

Other income. Other income includes an accrual for R&D tax incentive credits earned by the company on eligible R&D activities during the year ended 30 June 2012. The new R&D Tax Incentive scheme in Australia enables a 45 per cent refundable tax offset to eligible entities with an aggregated turnover of less than $20 million per annum. Pharmaxis Ltd will fall into this category for the 2012 financial year. In 2011 the Company's Canadian subsidiary accrued R&D tax credits of A$0.17 million. Also included in other income are fees charged for the group's UK sales force promoting other pharmaceutical companies' products to respiratory specialists.

Research and Development Expenses. Research and development expenses were A$29.2 million in 2012 compared to A$34.6 million in 2011.

1. The drug discovery and development group is focused on respiratory drug discovery and accounted for approximately 12 percent of our total research and development expenditure in the current year and decreased by approximately 20 percent or A$0.9 million compared to 2011 reflecting closure of the drug discovery unit in Montreal in December 2010, which had contributed to the additional research infrastructure and associated costs in the 2011 year. The Montreal activities have been absorbed into the Sydney based research programs.
2. The clinical group accounted for approximately 50 percent of the total research and development expenditure in 2012 and decreased by approximately 15 percent or A$2.5 million compared to 2011. The clinical group designs and monitors the clinical trials. The majority of the expenditures of this group 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 year.
3. The manufacturing facility at Frenchs Forest is predominantly focused on producing material for clinical trials, producing and analyzing material in support of regulatory filings and developing enhanced manufacturing products and processes. Manufacturing expenses for the current year have, therefore, mainly been classified as research and development expenditure. Costs associated with the Aridol and Bronchitol products sold are classified as cost of sales. Manufacturing accounted for approximately 32 percent of total research and development expenditure in 2012 and decreased by approximately 17 percent or A$2 million compared to 2011. The drivers for this decrease include lower manufacturing costs related to the supply of clinical trial material for the Phase III trial in Bronchiectasis and lower costs incurred on development of our new inhalation device.
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 6 percent of total research and development expenditure in 2012 which is consistent with 2011.

Commercial Expenses. Commercial expenses are focused on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Commercial expenses were A$11.1 million in 2012 compared to A$9.2 million in 2011. The increase in commercial expenses is attributable to the scale-up of commercial infrastructure and resources and the launch of Bronchitol in Europe and to a lesser extent Australia. The higher costs were marginally offset by a continuing stronger AUD exchange rate in the current year reducing the Australian dollar value of the US and UK commercial operations.

Administration Expenses. Administration expenses include accounting, administration, recruitment and public company costs and were A$5.4 million in 2012 and A$5.2 million in 2011.

Finance Costs. Finance costs represent the finance charge associated with the capitalised finance lease of the 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.

Loss. The loss decreased from A$45.8 million in 2011 to A$38.6 million in 2012 due to the movement in operating expenses discussed above.

Basic and diluted net loss per share. Basic and diluted net loss per share improved from A$0.202 in 2011 to A$0.142 in 2012.

5.4 Liquidity and Capital Resources

Since inception, Pharmaxis operations have been financed mainly through the issuance of equity securities and initially, by the issuance of convertible redeemable preference shares. Additional funding has come through research grants, interest on investments and the exercise of employee options. Since the commercial launch of Aridol in Australia in June 2006 and subsequently in Europe, South Korea and the United States, operations have also generated sales revenue. Through 30 June 2012, Pharmaxis has received net cash proceeds from the issue of ordinary and convertible redeemable preference shares of A$323.5 million and approximately A$11.6 million in research grants.

The company completed a 1 for 3 pro-rata accelerated non-renounceable entitlement offer to eligible shareholders in the first half of 2012 and raised approximately $76.1 million (net of related transaction costs). The proceeds from the Entitlement Offer will be used to increase the company's cash reserves and strengthen the balance sheet to support the commercial launch of Bronchitol for cystic fibrosis in Europe.

The Company has incurred significant losses since inception. The Company incurred losses of A$46.3 million, A$45.8 million and A$38.6 million in the financial years ended 30 June 2010, 2011 and 2012 respectively. As of 30 June 2012 Pharmaxis had cash and cash equivalents of A$81.5 million as compared to A$44.3 million as of 30 June 2011.

In 2012, the Company used net cash of A$38.1 million for operating activities. This consisted of a net loss for the period of A$38.6 million, which included A$4.9 million of non-cash depreciation and amortization, and non-cash stock option expense of A$0.957 million, and negative other working capital movements of A$5.8 million. Net cash outflow from investing activities during 2012 was A$0.17 million, which was intentionally constrained pending the outcome of the re-examination of the European Bronchitol marketing application for cystic fibrosis.

Net cash received by financing activities during 2012 was A$75.4 million related to cash inflows from the entitlement offer of $76.1 million, $0.6 million from exercise of employee options offset by outflows on the facility finance lease payments.

In 2011, the Company used net cash of A$37.4 million for operating activities. This consisted of a net loss for the period of A$45.8 million, which included A$5.0 million of non-cash depreciation and amortization, and non-cash stock option expense of A$1.6 million, and positive other working capital movements of A$1.2 million. Net cash inflow for investing activities during 2011 was A$2.9 million, which was spent predominately on payments for plant and equipment of $1.4 million related to new manufacturing equipment being installed in our manufacturing facility and $1.5 million deferred consideration for the acquisition of Technology Innovation Limited, a small UK based company with inhalation device technologies. Net cash used by financing activities during 2011 was A$0.8 million related to cash outflows on the facility finance lease payments offset by cash inflows from exercise of employee options.

6 Financial Statements

This financial report covers Pharmaxis Ltd as the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial report is 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

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 this financial report.

The financial report was authorised for issue by the directors on 9th August 2012. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. Press releases, financial reports and other information are available at our website: www.pharmaxis.com.au.

Consolidated Income Statement

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**1,331**	910
Cost of sales		**(522)**	(342)
Gross profit		**809**	568
Other revenue	2	**3,049**	3,083
Other income	3	**3,874**	465
Other expenses from ordinary activities	4		
Research & development expenses		**(29,222)**	(34,632)
Commercial expenses		**(11,073)**	(9,163)
Administration expenses		**(5,387)**	(5,171)
Finance expenses		**(768)**	(859)
Loss before income tax		**(38,718)**	(45,709)
Income tax expense	5	**74**	(49)
Loss for the year		**(38,644)**	(45,758)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	30	**(14.2)**	(20.2)
Diluted earnings / (loss) per share	30	**(14.2)**	(20.2)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	2012 $'000	2011 $'000
Loss for the financial year	**(38,644)**	(45,758)
Other comprehensive income		
Exchange differences on translation of foreign operations	**(32)**	(466)
Other comprehensive income for the year, net of tax	**(32)**	(466)
Total comprehensive income for the year	**(38,676)**	(46,224)
Total comprehensive income for the year is attributable to:		
Owners of Pharmaxis Ltd	**(38,676)**	(46,224)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**81,475**	44,343
Trade and other receivables	7	**4,322**	796
Inventories	8	**1,477**	864
Total current assets		**87,274**	46,003
Non-current assets			
Receivables	9	**2,600**	2,045
Other financial assets	10	**–**	–
Property, plant and equipment	11	**27,683**	30,570
Intangible assets	12	**14,143**	15,954
Total non-current assets		**44,426**	48,569
Total assets		**131,700**	94,572
LIABILITIES			
Current liabilities			
Trade and other payables	13	**5,990**	7,055
Borrowings	14	**515**	443
Other liabilities	15	**239**	239
Current tax liabilities		**35**	6
Total current liabilities		**6,779**	7,743
Non-current liabilities			
Borrowings	16	**12,145**	12,716
Other liabilities	17	**2,571**	2,810
Provisions	18	**402**	473
Total non-current liabilities		**15,118**	15,999
Total liabilities		**21,897**	23,742
Net assets		**109,803**	70,830
EQUITY			
Contributed equity	19	**344,388**	267,610
Reserves	20(a)	**14,331**	13,492
Accumulated losses	20(b)	**(248,916)**	(210,272)
Total equity		**109,803**	70,830

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 30 June 2010		**267,050**	**12,480**	**(164,514)**	**115,016**
Loss for the year		–	–	(45,758)	(45,758)
Other comprehensive income		–	(466)	–	(466)
Total comprehensive income for the year		–	(466)	(45,758)	(46,224)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	560	–	–	560
Employee share options	20(a)	–	1,478	–	1,478
		560	1,478	–	2,038
Balance at 30 June 2011		**267,610**	**13,492**	**(210,272)**	**70,830**
Loss for the year		–	–	(38,644)	(38,644)
Other comprehensive income		–	(32)	–	(32)
Total comprehensive income for the year		**–**	**(32)**	**(38,644)**	**(38,676)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	76,778	–	–	76,778
Employee share options	20(a)	–	871	–	871
		76,778	**871**	**–**	**77,649**
Balance at 30 June 2012		**344,388**	**14,331**	**(248,916)**	**109,803**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,615**	1,294
Payments to suppliers and employees (inclusive of goods and services tax)		**(43,126)**	(42,572)
		(41,511)	(41,278)
Grant receipts from government		**171**	966
Interest received		**3,049**	3,083
Income tax paid		**149**	(137)
Net cash outflow from operating activities	29	**(38,142)**	(37,366)
Cash flows from investing activities			
Payment for acquisition of subsidiaries, net of cash acquired (net receipt)		**–**	(1,496)
Payments for property, plant and equipment		**(204)**	(1,236)
Proceeds from disposal of plant and equipment		**110**	27
Payments for intangible assets		**(75)**	(178)
Net cash outflow from investing activities		**(169)**	(2,883)
Cash flows from financing activities			
Net proceeds from issues of shares		**76,693**	471
Finance lease payments		**(1,267)**	(1,229)
Net cash inflow / (outflow) from financing activities		**75,426**	(758)
Net increase / (decrease) in cash and cash equivalents		**37,115**	(41,007)
Cash and cash equivalents at the beginning of the financial year		**44,343**	85,787
Effects of exchange rate changes on cash and cash equivalents		**17**	(437)
Cash and cash equivalents at the end of the financial year	6	**81,475**	44,343

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

As at 30 June 2012

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Pharmaxis Ltd is a for profit entity for the purposes of preparing the financial statements.

Compliance with IFRSs
The consolidated financial statements of Pharmaxis Ltd also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared under the historical cost convention.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Management believe that any estimation uncertainty would not have a significant risk of causing a material adjustment to the carrying values of assets and liabilities and no judgements were made that could have significant effects on the amounts recognised in the financial report. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Income taxes* – The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes and other tax related balances. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities/receipts based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pharmaxis Ltd ('company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Pharmaxis Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than onehalf of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Pharmaxis Ltd.

1. Summary of significant accounting policies (continued)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Pharmaxis Ltd's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Sales revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recorded when goods have been dispatched and the risk and rewards have passed to the customer.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Research & Development tax incentive income

Research & Development tax incentive income is recognised when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. When the company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the company recognises the income only when the relevant expenditure has been incurred.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of plant and equipment are included in noncurrent liabilities as deferred income and are credited to the income statement on a straightline basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income, or directly in equity, respectively.

The Group has unused tax losses of $264 million at 30 June 2012 as described in note 5.

(h) Leases

Leases of property where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 24). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the principal repayment and the finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property acquired under the finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Any lease incentive received is recognised in the income statement on a straight-line basis over the lease term.

1. Summary of significant accounting policies (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes cash on hand, deposits at call and bank accepted commercial bills, which are subject to an insignificant risk of changes in value.

Bank accepted commercial bills are short-term deposits held with banks with maturities of three months or less, which are acquired at a discount to their face value. The bills are carried at cost plus a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest received.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement between 30 – 60 days from date of invoice.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses in the income statement.

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straightline method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	5 – 15 years
Computer equipment	4 years
Leased building and improvements	15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives, which vary from 5 to 20 years.

(ii) Trademarks

Trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks over their estimated useful lives, which are assessed as 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

1. Summary of significant accounting policies (continued)

(iv) Software

Software licenses are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over their estimated useful lives, which vary from 3 to 5 years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition and receipt of a valid invoice.

(q) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised as a provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to defined contribution funds are recognised as an expense as they become payable.

(iv) Equity-based payments

Equity-based compensation benefits are provided to employees via the Pharmaxis Employee Equity Plans. Information relating to these schemes is set out in note 32. The fair value of equity granted under the various plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options / performance rights.

For options the fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

For performance rights the fair value at grant date is taken to be the closing share price on the date of grant.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, performance targets). Non-market vesting conditions are included in assumptions about the number of options / performance rights that are expected to become exercisable. At each balance sheet date, the Company revises its estimate of the number of options / performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(r) Other liabilities

Other liabilities comprises a deferred lease incentive which relates to a cash incentive received pursuant to the lease agreement. The deferred incentive is amortised to the income statement over the lease term of 15 years.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options (net of recognised tax benefits) are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing net result after income tax attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. At present, the potential ordinary shares are anti-dilutive, and have therefore not been included in the dilutive earnings per share calculations.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(v) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(w) Parent entity financial information

The financial information for the parent entity, Pharmaxis Ltd, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements.

1. Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a 'partial disposal' concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

Annual Improvements Project – 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013)

In May 2012, the IASB made a number of amendments to International Financial Reporting Standards as a result of the 2009-2011 annual improvements project. The group will apply the amendments from 1 July 2013. The group does not expect that any material and/or significant adjustments will be necessary as the result of applying the revised rules.

2 Revenue

	2012	2011
	$'000	$'000
Sales revenue		
Sale of goods	**1,331**	910
Other revenue		
Interest	**3,049**	3,083

3 Other income

	2012	2011
	$'000	$'000
R&D Tax Incentive income	**3,739**	173
Service income	**135**	292
	3,874	465

Other income includes an accrual for R&D tax incentive credits earned by the Group on eligible R&D activities during the year. Within Australia, 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 is within this threshold for the 2012 financial year.

4 Expenses

	2012 $'000	2011 $'000
Loss before income tax includes the following specific expenses:		
Depreciation (note 11)		
Plant and equipment	**1,268**	1,356
Computer equipment	**251**	281
Leased building and improvements	**1,517**	1,491
Total depreciation	**3,036**	3,128
Amortisation (note 12)		
Patents	**1,757**	1,753
Trademarks	**6**	6
Software	**105**	139
Total amortisation	**1,868**	1,898
Impairment losses – financial assets		
Trade receivables	**(39)**	(12)
Net gain on disposal of plant and equipment	**(57)**	(26)
Rental expense relating to operating leases	**1,265**	1,436
Net foreign exchange losses / (gains)	**89**	(10)
Employee benefits expense		
Defined contribution superannuation	**996**	1,018
Other employee benefits expenses	**18,456**	18,246

5 Income tax expense

	2012 $'000	2011 $'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	**(38,718)**	(45,709)
Tax at the Australian tax rate 30% (2011:30%)	**(11,615)**	(13,713)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**287**	470
Government research tax incentives	**1,357**	(811)
Sundry items	**227**	8
	(9,744)	(14,046)
Over provision in prior years	**84**	155
Difference in overseas tax rates	**(13)**	(3)
Total	**(9,673)**	(13,894)
Deferred tax benefits not recognised	**9,599**	13,943
Income tax (benefit) / expense	**(74)**	49

This represents current income tax (benefit) / expense.

(b) Deferred tax balances

	2012 $'000	2011 $'000
Deferred tax asset comprises temporary differences attributable to the following:		
Interest and Grant receivables	**(167)**	(122)
Lease balances	**496**	367
Deferred lease incentive	**843**	915
Employee benefits	**654**	539
Share capital raising costs	**1,165**	514
Other	**74**	129
	3,065	2,342
Deferred tax assets attributable to temporary differences which are not recognised	**(3,065)**	(2,342)
	–	–

(c) Tax losses

	2012 $'000	2011 $'000
Unused tax losses for which no deferred tax asset has been recognised	**263,722**	231,444
Potential tax benefit @ 30%	**79,117**	69,433

All unused tax losses were incurred by the parent entity.

6 Current assets – Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and in hand	**736**	847
Deposits at call	**2,673**	3,050
Bank accepted commercial bills	**78,066**	40,446
	81,475	44,343

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 31. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents above.

7 Current assets – Trade and other receivables

	2012 $'000	2011 $'000
Trade receivables	**359**	399
Provision for impairment of receivables (note (b))	**(72)**	(111)
	287	288
R&D Tax Incentive receivable	**3,767**	199
Prepayments (note (c))	**70**	113
Tax related receivables	**198**	196
	4,322	796

(a) Past due but not impaired

As of 30 June 2012, trade receivables of $162,473 (2011: $83,885) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2012 $'000	2011 $'000
Up to 1 month	**75**	33
1 to 2 months	**10**	50
Over 2 months	**77**	1
	162	84

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

(b) Impaired trade receivables

As of 30 June 2012, trade receivables of $71,739 (2011: $111,408) were impaired.

(c) Prepayments

Prepayments relate to insurance premiums and income tax instalments paid in advance.

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 31.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 31 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8 Current assets – Inventories

	2012 $'000	2011 $'000
Raw materials – at cost	**472**	288
Work-in-progress – at cost	**628**	272
Finished goods – at cost	**377**	304
	1,477	864

9 Non-current assets – Receivables

	2012 $'000	2011 $'000
Other receivables (note (a))	**2,600**	2,045
Prepayments	**–**	–
	2,600	2,045

(a) Other receivables

Other receivables primarily represents cash held at bank to cover bank guarantee facilities related to finance and operating lease commitments, corporate credit card and local payment clearing house facilities.

(b) Fair value

The carrying amount of the non-current receivables approximates their fair value.

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 31.

10 Non-current assets – Other financial assets

	2012 $'000	2011 $'000
Shares in subsidiaries (note 26)	**–**	–

11 Non-current assets – Property, plant and equipment

	Plant and equipment $'000	Computer equipment $'000	Leased building & improvements $'000	Total $'000
At 1 July 2010				
Cost	14,846	1,300	23,022	39,168
Accumulated depreciation and impairment	(3,860)	(682)	(2,089)	(6,631)
Net book amount	10,986	618	20,933	32,537
Year ended 30 June 2011				
Opening net book amount	10,986	618	20,933	32,537
Exchange differences	(17)	(10)	(1)	(28)
Additions	964	203	23	1,190
Disposals	–	(1)	–	(1)
Depreciation charge	(1,356)	(281)	(1,491)	(3,128)
Closing net book amount	10,577	529	19,464	30,570
At 30 June 2011				
Cost	15,782	1,404	23,044	40,230
Accumulated depreciation and impairment	(5,205)	(875)	(3,580)	(9,660)
Net book amount	10,577	529	19,464	30,570
Year ended 30 June 2012				
Opening net book amount	10,577	529	19,464	30,570
Exchange differences	2	4	–	6
Additions	91	105	–	196
Disposals	(48)	(5)	–	(53)
Depreciation charge	(1,268)	(251)	(1,517)	(3,036)
Closing net book amount	9,354	382	17,947	27,683
At 30 June 2012				
Cost	15,707	1,490	23,044	40,241
Accumulated depreciation and impairment	(6,353)	(1,108)	(5,097)	(12,558)
Net book amount	9,354	382	17,947	27,683

(a) Leased assets

Leased building and improvements includes the following amounts where the Group is a lessee under a finance lease:

	2012 $'000	2011 $'000
Cost	**13,916**	13,916
Accumulated amortisation	**(2,909)**	(1,982)
Net book amount	**11,007**	11,934

12 Non-current assets – Intangible assets

	Patents $'000	Trademarks $'000	Software $'000	Total $'000
At 1 July 2010				
Cost	18,699	112	604	19,415
Accumulated amortisation and impairment	(1,373)	(17)	(323)	(1,713)
Net book amount	17,326	95	281	17,702
Year ended 30 June 2011				
Opening net book amount	17,326	95	281	17,702
Additions	81	–	69	150
Disposals	–	–	–	–
Amortisation charge	(1,753)	(6)	(139)	(1,898)
Closing net book amount	15,654	89	211	15,954
At 30 June 2011				
Cost	18,780	112	673	19,565
Accumulated amortisation and impairment	(3,126)	(23)	(462)	(3,611)
Net book amount	15,654	89	211	15,954
Year ended 30 June 2012				
Opening net book amount	15,654	89	211	15,954
Additions	51	–	6	57
Disposals	–	–	–	–
Amortisation charge	(1,757)	(6)	(105)	(1,868)
Closing net book amount	13,948	83	112	14,143
At 30 June 2012				
Cost	18,831	111	680	19,622
Accumulated amortisation and impairment	(4,883)	(28)	(568)	(5,479)
Net book amount	13,948	83	112	14,143

13 Current liabilities – Trade and other payables

	2012 $'000	2011 $'000
Trade payables	**922**	1,235
Other payables (note (a))	**5,068**	5,820
	5,990	7,055

(a) Other payables

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. Other payables also includes the current portion of the provision for long service leave.

(b) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 31.

14 Current liabilities – Borrowings

	2012 $'000	2011 $'000
Secured		
Lease liabilities (note 24)	**515**	443

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 16.

(b) Risk exposure

Information about the Group's exposure to risks arising from current and non-current borrowings is provided in note 31.

15 Current liabilities – Other liabilities

	2012 $'000	2011 $'000
Deferred lease incentive	**239**	239

Information about the deferred lease incentive is provided in note 17.

16 Non-current liabilities – Borrowings

	2012 $'000	2011 $'000
Secured		
Lease liabilities (note 24)	**12,145**	12,716

Secured liabilities and assets pledged as security

Lease liabilities are effectively secured, as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

17 Non-current liabilities – Other liabilities

	2012 $'000	2011 $'000
Deferred lease incentive	**2,571**	2,810

The deferred lease incentive relates to a cash incentive received pursuant to a lease agreement. The deferred incentive is amortised over the 15 year lease term on a straight-line basis.

18 Non-current liabilities – Provisions

	2012 $'000	2011 $'000
Employee benefits – long service leave	**402**	473

19 Contributed equity

	Notes	Consolidated and Parent Entity 2012 Shares	Consolidated and Parent Entity 2011 Shares	Consolidated and Parent Entity 2012 $'000	Consolidated and Parent Entity 2011 $'000
(a) Share capital					
Ordinary shares	(b),(c)				
Fully paid		**307,630,989**	228,290,309	**344,388**	267,610

Movements in ordinary share capital:

Details	Number of shares	Issue price	$'000
Opening balance as at 1 July 2010	225,410,234		267,050
Exercise of employee options	836,875	$0.5628[1]	471
Employee Share Plan	43,200	$2.0690	89
Issued subsequent to the acquisition of a subsidiary	2,000,000		–
Closing Balance at 30 June 2011	228,290,309		267,610
Exercise of employee options	2,880,000	$0.208[1]	600
Employee Share Plan	86,000	$0.991	85
Entitlement Offer	76,374,680	$1.050	80,193
Transaction costs on share issues	–		(4,100)
Closing Balance at 30 June 2012	307,630,989		344,388

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

(a) 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.

(b) Equity plans

Information relating to the Pharmaxis Employee Equity Plans, including details of equity instruments issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, is set out in note 32.

(c) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group predominately uses equity to finance its projects. In order to maintain or adjust the capital structure, the Group may issue new shares.

20 Reserves and accumulated losses

	2012 $'000	2011 $'000
(a) Reserves		
Share-based payments reserve	**14,719**	13,848
Foreign currency translation reserve	**(388)**	(356)
	14,331	13,492
Share-based payments reserve		
Balance 1 July	**13,848**	12,370
Equity expense	**871**	1,478
Balance 30 June	**14,719**	13,848
Foreign currency translation reserve		
Balance 1 July	**(356)**	110
Currency translation differences arising during the year	**(32)**	(466)
Balance 30 June	**(388)**	(356)
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	**(210,272)**	(164,514)
Net loss for the year	**(38,644)**	(45,758)
Balance 30 June	**(248,916)**	(210,272)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of equity instruments granted.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

21 Key management personnel disclosures

(a) Key management personnel compensation

	2012 $'000	2011 $'000
Short-term employee benefits	**2,821,611**	2,343,884
Post-employment benefits	**185,710**	187,815
Long-term benefits	**70,709**	52,932
Share-based payments	**603,679**	1,043,251
	3,681,709	3,627,882

Detailed remuneration disclosures are provided in the remuneration report under section 2.2.

(b) Equity instrument disclosures relating to key management personnel

(i) Options and performance rights provided as remuneration and shares issued on exercise of such instruments
Details of equity instruments provided as remuneration and shares issued on the exercise of such instruments, together with related terms and conditions, can be found in the remuneration report section of the Directors' Report.

(ii) Option holdings
The number of options over ordinary shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
AD Robertson	1,960,000	–	(960,000)	–	1,000,000	1,000,000
MJ McComas	140,000	–	(100,000)	–	40,000	40,000
J Villiger	200,000	–	–	–	200,000	200,000
W Delaat	200,000	–	–	–	200,000	200,000
R van den Broek	–	–	–	–	–	–
Other key management personnel of the Group						
B Charlton	1,060,000	–	(300,000)	–	760,000	722,500
JF Crapper	930,000	–	–	–	930,000	892,500
HG Fox	337,500	–	–	–	337,500	253,125
IA McDonald	870,000	–	–	–	870,000	832,500
DM McGarvey	1,710,000	–	(480,000)	–	1,230,000	1,192,500
GJ Phillips	1,005,000	–	–	–	1,005,000	967,500

1 DM Hanley resigned as a director effective 30th April 2012. Mr Hanley exercised 1,040,000 options during the year ended 30 June 2012. The remaining unexercised balance of 80,000 options lapsed before 30 June 2012.

21 Key management personnel disclosures (continued)

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	1,120,000	–	–	–	1,120,000	1,120,000
AD Robertson	1,960,000	–	–	–	1,960,000	1,710,000
MJ McComas	240,000	–	(100,000)	–	140,000	140,000
J Villiger	200,000	–	–	–	200,000	200,000
W Delaat	200,000	–	–	–	200,000	150,000
R van den Broek	–	–	–	–	–	–
Other key management personnel of the Group						
B Charlton	1,160,000	–	(100,000)	–	1,060,000	947,500
JF Crapper	930,000	–	–	–	930,000	817,500
HG Fox	400,000	–	(62,500)	–	337,500	168,750
IA McDonald	870,000	–	–	–	870,000	757,500
DM McGarvey	1,710,000	–	–	–	1,710,000	1,597,500
GJ Phillips	1,195,000	–	(190,000)	–	1,005,000	892,500

(iii) Performance Rights holdings

The number of performance rights over ordinary shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
AD Robertson[1]	50,000	–	–	–	50,000	–
MJ McComas	–	–	–	–	–	–
J Villiger	–	–	–	–	–	–
W Delaat	–	–	–	–	–	–
R van den Broek	–	–	–	–	–	–
Other key management personnel of the Group						
B Charlton	40,000	150,000	–	–	190,000	–
JF Crapper	40,000	150,000	–	–	190,000	–
HG Fox	40,000	150,000	–	–	190,000	–
IA McDonald	40,000	–	–	–	40,000	–
DM McGarvey	40,000	150,000	–	–	190,000	–
GJ Phillips	40,000	150,000	–	–	190,000	–

1 The directors have resolved to grant 200,000 performance rights to AD Robertson under the Company's employee option plan. The grant requires shareholder approval which will be sought at the annual general meeting of the Company, and if granted, reflected in the year ended 30 June 2013.

21 Key management personnel disclosures (continued)

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	–	–	–	–	–	–
AD Robertson	–	50,000	–	–	50,000	–
MJ McComas	–	–	–	–	–	–
J Villiger	–	–	–	–	–	–
W Delaat	–	–	–	–	–	–
R van den Broek	–	–	–	–	–	–
Other key management personnel of the Group						
B Charlton	–	40,000	–	–	40,000	–
JF Crapper	–	40,000	–	–	40,000	–
HG Fox	–	40,000	–	–	40,000	–
IA McDonald	–	40,000	–	–	40,000	–
DM McGarvey	–	40,000	–	–	40,000	–
GJ Phillips	–	40,000	–	–	40,000	–

(iv) Share holdings

The numbers of shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their close family members, are set out below. (Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity).

2012 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
AD Robertson	645,000	960,000	–	1,605,000
MJ McComas	239,999	100,000	–	339,999
J Villiger	250,000	–	83,334	333,334
W Delaat	25,000	–	8,334	33,334
R van den Broek[2]	75,000	–	–	75,000
Other key management personnel of the Group				
Ordinary shares				
B Charlton	46	300,000	(85,000)	215,046
JF Crapper	2,000	–	–	2,000
HG Fox	–	–	–	–
IA McDonald	–	–	–	–
DM McGarvey	12,127	480,000	(300,000)	192,127
GJ Phillips	90,000	–	–	90,000

1 DM Hanley resigned as a director effective 30th April 2012.

2 Richard van den Broek is associated with HSMR Advisors (QP) L.P, HSMR Advisors (QP) L.P, held 830,000 shares as at 30 June 2012 (2011: 830,000).

21 Key management personnel disclosures (continued)

2011 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
DM Hanley	798,295	–	–	798,295
AD Robertson	1,145,000	–	(500,000)	645,000
MJ McComas	139,999	100,000	–	239,999
J Villiger	–	–	250,000	250,000
W Delaat	25,000	–	–	25,000
R van den Broek	75,000	–	–	75,000
Other key management personnel of the Group				
Ordinary shares				
B Charlton	46	100,000	(100,000)	46
JF Crapper	2,000	–	–	2,000
HG Fox	–	62,500	(62,500)	–
IA McDonald	–	–	–	–
DM McGarvey	7,127	–	5,000	12,127
GJ Phillips	5,000	190,000	(105,000)	90,000

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2012.

22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

	2012 $	2011 $
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	**228,807**	229,170
PricewaterhouseCoopers UK firm		
Audit of the financial report of Pharmaxis Pharmaceuticals Limited	**16,843**	15,230
Total remuneration for audit services	**245,650**	244,400
(b) Other assurance services		
PricewaterhouseCoopers Australian firm		
Control testing	**9,750**	9,750
Entitlement Rights Issue – Agreed upon procedures review	**20,000**	–
	29,750	9,750
PricewaterhouseCoopers China firm		
Accounting review services	**2,443**	14,841
Total remuneration for other services	**32,193**	24,591
(c) Tax services		
PricewaterhouseCoopers Australian firm		
International tax consulting and tax advice	**12,510**	23,967
Tax compliance services	**76,371**	17,000
	88,881	40,967
Other PricewaterhouseCoopers firms		
Tax compliance services	**101,471**	63,458
Total remuneration for tax services	**190,352**	104,425

23 Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

Guarantees

The Group's bankers have issued bank guarantees of $1,070,435 (2011: $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 Group's bankers have provided a corporate credit card facility which is secured by a deposit held at the bank totalling $65,274 (2011: $77,920).

The Group's bankers have issued a bank guarantee of GBP180,000 (2011: 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 Group's bankers have issued a bank guarantee of USD175,000 (2011: 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.

24 Commitments

	2012 $'000	2011 $'000
(a) Capital Commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment		
Payable: Within one year	**–**	–

(b) Lease Commitments

(i) Non-cancellable operating leases

The Group leases various offices and items of plant and equipment under non-cancellable operating leases expiring within one to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,172**	1,051
Later than one year but not later than five years	**3,947**	4,060
Later than 5 years	**4,353**	3,914
	9,472	9,025

24 Commitments (continued)

(ii) Finance leases

The Group has entered into an agreement concerning the lease of a custom designed manufacturing, warehousing, research and office facility of approximately 7,200 square metres, constructed to our specifications. The lease has a term of 15 years, with two options to renew for a further five years each and the option to break the lease at ten years but with financial penalties attached. The initial minimum annual rental under the agreement for the finance lease component was $1.2 million. The operating lease component (disclosed in note 24 (b) (i)) was $0.4 million. Both components increase each year for the term of the agreement by 3.25%.

	2012 $'000	2011 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**1,322**	1,280
Later than one year but not later than five years	**5,732**	5,551
Later than five years	**11,656**	13,080
Minimum lease payments	**18,710**	19,911
Future finance charges	**(6,050)**	(6,752)
Total lease liabilities	**12,660**	13,159
Current (note 14)	**515**	443
Non-current (note 16)	**12,145**	12,716
	12,660	13,159

(iii) Other commitments

The Company has in place a number of contracts with consultants and contract research organisations in relation to its business activities. The terms of these contracts are for relatively short periods of time and/or allow for the contracts to be terminated with relatively short notice periods. The actual committed expenditure arising under these contracts is therefore not material.

25 Related party transactions

(a) Parent entities

The parent entity within the Group is Pharmaxis Ltd (incorporated in Australia).

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent Entity	
	2012 **$**	2011 $	**2012** **$**	2011 $
Marketing, drug discovery, clinical, regulatory and administration services expenditure paid to subsidiaries	**–**	–	**7,311,490**	8,154,853

(e) Outstanding balances arising from transactions

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent Entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Current receivables				
Subsidiaries	**–**	–	**–**	273,945
Current payables				
Subsidiaries	**–**	–	**445,254**	–

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates pursuant to a Contract for Services. Under the contract the parent entity is required to pay for services within 30 days of receipt, with interest penalty clauses applying after 90 days.

Outstanding balances are unsecured and are repayable in cash.

26 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2012	2011
			%	%
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	**100**	100
Pharmaxis, Inc.	United States	Ordinary	**100**	100
Topigen Pharmaceuticals Inc.	Canada	Ordinary	**100**	100
Technology Innovation Limited	United Kingdom	Ordinary	**100**	100

27 Events occurring after the balance sheet date

No matter or circumstance has arisen since 30 June 2012 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.

28 Financial reporting by segments

The company operates predominantly in one industry. The principal activities of the company are the research, development and commercialisation of pharmaceutical products.

The company operates in a number of geographical areas. The operations in overseas jurisdictions are in the early days of establishment and currently do not have a material impact on the overall group operations.

29 Reconciliation of loss after income tax to net cash outflows from operating activities

	2012 $'000	2011 $'000
Loss for the year	**(38,644)**	(45,758)
Depreciation of property, plant & equipment	**3,036**	3,128
Amortisation of intangibles	**1,868**	1,898
Amortisation of lease incentive	**(239)**	(259)
Impairment losses – financial assets		
Trade receivables	**(39)**	(12)
Finance charges	**768**	859
Non cash employee benefits expense share-based payments	**956**	1,567
Net gain on disposal of non current assets	**(57)**	(26)
Change in operating assets and liabilities		
Decrease / (Increase) in trade receivables	**40**	(25)
(Increase) in inventories	**(613)**	(440)
(Increase) / decrease in other operating assets	**(4,082)**	1,513
(Decrease) / increase in trade payables	**(313)**	149
(Decrease) in other operating liabilities	**(752)**	(78)
(Decrease) / increase in other non-current provisions	**(71)**	118
Net cash outflow from operating activities	**(38,142)**	(37,366)

30 Earnings per share

	2012 Cents	2011 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	**(14.2)**	(20.2)
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	**(14.2)**	(20.2)
(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	**271,964,415**	226,874,590

(d) Information concerning the classification of option securities

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. Details relating to the options are set out in note 32.

31 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Board provides written principles of overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Group holds the following financial instruments:

	2012 $'000	2011 $'000
Financial assets		
Cash and cash equivalents	**81,475**	44,343
Trade and other receivables	**4,322**	796
Receivables	**2,600**	2,045
	88,397	47,184
Financial liabilities		
Trade and other payables	**5,990**	7,055
Borrowings	**12,660**	13,159
Other liabilities	**2,810**	3,049
	21,460	23,263

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally but is only exposed to minimal foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

31 Financial risk management (continued)

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2012			30 June 2011		
	USD $'000	**GBP $'000**	**EUR $'000**	USD $'000	GBP $'000	EUR $'000
Cash and cash equivalents	**113**	**104**	**23**	289	6	24
Trade receivables	**–**	**–**	**115**	–	–	154
Other receivables	**174**	**495**	**651**	–	–	341
Trade payables	**108**	**17**	**227**	46	213	251
Other payables	**325**	**369**	**910**	1,098	406	807

Group sensitivity

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened/strengthened by 10% against the EUR with all other variables held constant, the Group's post-tax loss for the year would have been $39,000 higher/$32,000 lower (2011 EUR: $60,000 higher/$49,000 lower), mainly as a result of foreign exchange gains/losses on translation of EUR denominated financial assets/liabilities as detailed in the above table.

(ii) Cash flow and fair value interest rate risk

The Group's main interest exposure arises from bank accepted commercial bills held. As at the reporting date, the Group had the following cash profile:

	30 June 2012		30 June 2011	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Cash and cash equivalents	**0.54%**	**3,409**	2.56%	3,897
Bank accepted commercial bills	**3.80%**	**78,066**	4.90%	40,446
Other receivables	**2.66%**	**2,600**	3.25%	2,045

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2012, if interest rates had changed by +/- 80 basis points from the year-end rates with all other variables held constant, post-tax loss for the year would have been $652,000 lower/higher (2011 – change of 80 bps: $371,000 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a minimum short-term money market rating of 'A1+' and a long term credit rating of 'AA' are accepted. Credit risk on bank accepted bills is further managed by spreading these bills across four major Australian banks.

Customer credit risk is managed by the establishment of credit limits. The compliance with credit limits by customers is regularly monitored by management, as is the ageing analysis of receivable balances. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 7 and note 9. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	2012 $'000	2011 $'000
Cash and cash equivalents		
A1+	**81,475**	44,343
Other receivables		
AA	**1,942**	1,691
Not rated	**658**	354
	2,600	2,045

Other receivables primarily represent bank guarantee facilities related to finance and operating leases, corporate credit card and local payment clearing house facilities.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets with short-term maturity profiles.

31 Financial risk management (continued)

Maturities of financial liabilities

The table below analyse the Group's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Group – at 30 June 2012						
Non-interest bearing	6,229	239	716	1,616	8,800	8,800
Fixed rate	515	594	2,323	9,228	12,660	12,660
Total non-derivatives	6,744	833	3,039	10,844	21,460	21,460
Group – at 30 June 2011						
Non-interest bearing	7,294	239	716	1,855	10,104	10,104
Fixed rate	443	515	2,045	10,156	13,159	13,159
Total non-derivatives	7,737	754	2,761	12,011	23,263	23,263

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The carrying value of financial liabilities for disclosure purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

32 Share-based payments

(a) Employee Option Plan (closed)

The Pharmaxis Employee Option Plan ('EOP') was approved by shareholders in 1999 and amended by shareholders in June 2003. The company ceased granting market exercise price options under the EOP in October 2009 in favour of Pharmaxis Performance Rights (refer below). The maximum number of options available to be issued under the EOP is 15% of total issued shares including the EOP. All employees and directors were eligible to participate in the EOP, but did so at the invitation of the Board.

The terms of market exercise price options issued were determined by the Board. Options were generally granted for no consideration and vest equally over a four year period. Once vested, the options remain exercisable for up to 10 years from the grant date or termination of employment (whichever is earlier). For options granted after 1 January 2003 the annual vesting is subject to approval by the Remuneration and Nomination Committee of the Board. The Committee gives its approval for vesting based on the achievement of individual employee's personal annual objectives. Options granted under the EOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price was set by the Board. Before the company listed on the Australian Securities Exchange in November 2003, the Board set the exercise price based on its assessment of the market value of the underlying shares at the time of grant. From listing until 31 August 2006 the exercise price was set as the average closing price of Pharmaxis Ltd shares on the Australian Securities Exchange on the 5 business days prior to the grant of the options. From 1 September 2006 the exercise price was set as the average of the volume weighted average price of Pharmaxis Ltd shares on the Australian Securities Exchange on the 5 business days prior to the grant of options.

Set out below are details of the total number of options exercised during the year and the weighted average share price at exercise date.

32 Share-based payments (continued)

	2012	2011
Number of options exercised during the year	**2,880,000**	836,875
Weighted average data:		
Share price at exercise date of options exercised during the year	**$1.05**	$2.58

There were 8,490,063 vested options at 30 June 2012 (10,649,250 at 30 June 2011). Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price[1]	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2012								
1 Sept 2001	30 Aug 2011	$0.1725	640,000	–	640,000	–	–	–
12 May 2003	30 June 2012	$0.1725	2,140,000	–	2,140,000	–	–	–
12 May 2003	30 Nov 2012	$0.1725	480,000	–	–	–	480,000	480,000
1 July 2003	30 June 2013	$0.1725	180,000	–	–	–	180,000	180,000
4 July 2003	3 July 2013	$0.1725	100,000	–	100,000	–	–	–
9 Dec 2003	30 Nov 2013	$0.2360	250,000	–	–	–	250,000	250,000
4 June 2004	3 June 2014	$0.2860	15,000	–	–	–	15,000	15,000
2 Feb 2005	1 Feb 2015	$0.6940	225,000	–	–	–	225,000	225,000
12 May 2005	11 May 2015	$1.0070	290,000	–	–	–	290,000	290,000
5 Aug 2005	4 Aug 2015	$1.6500	700,000	–	–	40,000	660,000	660,000
17 Oct 2005	16 Oct 2015	$2.6320	30,000	–	–	–	30,000	30,000
13 Feb 2006	12 Feb 2016	$2.0540	35,000	–	–	–	35,000	35,000
1 June 2006	31 May 2016	$1.8940	87,500	–	–	50,000	37,500	37,500
15 Aug 2006	14 Aug 2016	$1.7770	559,750	–	–	2,500	557,250	557,250
26 Oct 2006	14 Aug 2016	$1.7770	210,000	–	–	40,000	170,000	170,000
20 Sept 2006	19 Sept 2016	$1.7518	25,000	–	–	5,000	20,000	20,000
14 Dec 2006	13 Dec 2016	$2.9310	32,500	–	–	7,500	25,000	25,000
18 Jun 2007	17 Jun 2017	$3.1755	132,500	–	–	–	132,500	132,500
10 Aug 2007	9 Aug 2017	$3.2490	1,461,500	–	–	4,500	1,457,000	1,457,000
5 Nov 2007	9 Aug 2017	$3.2490	150,000	–	–	–	150,000	150,000
5 Nov 2007	14 Nov 2016	$3.0858	200,000	–	–	–	200,000	200,000
6 Nov 2007	5 Nov 2017	$4.1500	495,000	–	–	5,000	490,000	490,000
14 Dec 2007	13 Dec 2017	$3.9973	2,000	–	–	–	2,000	2,000
8 Feb 2008	7 Feb 2018	$3.1266	11,000	–	–	3,000	8,000	8,000
11 Apr 2008	10 Apr 2018	$1.9735	14,000	–	–	10,000	4,000	4,000
23 June 2008	22 June 2018	$1.4590	53,500	–	–	52,000	1,500	1,500
23 Oct 2008	22 June 2018	$1.4590	200,000	–	–	–	200,000	200,000
12 Aug 2008	11 Aug 2018	$1.6770	1,200,500	–	–	62,500	1,138,000	1,138,000

32 Share-based payments (continued)

Grant date	Expiry date	Exercise price[1]	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2012								
23 Oct 2008	11 Aug 2018	$1.6770	200,000	–	–	–	200,000	200,000
23 Oct 2008	22 Oct 2018	$1.4660	92,500	–	–	32,500	60,000	60,000
11 Dec 2008	10 Dec 2018	$1.0207	35,000	–	–	15,000	20,000	20,000
5 Feb 2009	4 Feb 2019	$1.1980	208,500	–	–	1,000	207,500	155,625
23 Apr 2009	22 Apr 2019	$1.8174	3,750	–	–	–	3,750	2,813
23 Jun 2009	22 Jun 2019	$2.4098	1,502,500	–	–	44,000	1,458,500	1,093,875
21 Oct 2009	22 Jun 2019	$2.4098	200,000	–	–	–	200,000	200,000
Total			12,162,000	–	2,880,000	374,500	8,907,500	8,490,063
Weighted average exercise price			$1.764	$ –	$0.208	$1.822	$2.085	$2.076

1 The option exercise price was adjusted by $0.14 following the Entitlement Rights Issue in accordance with the terms and conditions of the Employee Option Plan.

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2011								
1 Sept 2001	30 Aug 2011	$0.3125	640,000	–	–	–	640,000	640,000
2 Dec 2001	30 Nov 2011	$0.1250	85,000	–	85,000	–	–	–
12 May 2003	30 June 2012	$0.3125	2,440,000	–	300,000	–	2,140,000	2,140,000
12 May 2003	30 Nov 2012	$0.3125	480,000	–	–	–	480,000	480,000
1 July 2003	30 June 2013	$0.3125	180,000	–	–	–	180,000	180,000
4 July 2003	3 July 2013	$0.3125	200,000	–	100,000	–	100,000	100,000
9 Dec 2003	30 Nov 2013	$0.3760	440,000	–	190,000	–	250,000	250,000
4 June 2004	3 June 2014	$0.4260	15,000	–	–	–	15,000	15,000
2 Feb 2005	1 Feb 2015	$0.8340	225,000	–	–	–	225,000	225,000
12 May 2005	11 May 2015	$1.1470	290,000	–	–	–	290,000	290,000
5 Aug 2005	4 Aug 2015	$1.7900	740,000	–	40,000	–	700,000	700,000
17 Oct 2005	16 Oct 2015	$2.7720	30,000	–	–	–	30,000	30,000
13 Feb 2006	12 Feb 2016	$2.1940	35,000	–	–	–	35,000	35,000
1 June 2006	31 May 2016	$2.0340	87,500	–	–	–	87,500	87,500
15 Aug 2006	14 Aug 2016	$1.9170	582,250	–	22,500	–	559,750	559,750
26 Oct 2006	14 Aug 2016	$1.9170	210,000	–	–	–	210,000	210,000
20 Sept 2006	19 Sept 2016	$1.8918	40,000	–	15,000	–	25,000	25,000
14 Dec 2006	13 Dec 2016	$3.0710	32,500	–	–	–	32,500	32,500
18 Jun 2007	17 Jun 2017	$3.3155	142,500	–	–	10,000	132,500	132,500
10 Aug 2007	9 Aug 2017	$3.3890	1,471,500	–	–	10,000	1,461,500	1,461,500
5 Nov 2007	9 Aug 2017	$3.3890	150,000	–	–	–	150,000	150,000
5 Nov 2007	14 Nov 2016	$3.2258	200,000	–	–	–	200,000	200,000
6 Nov 2007	5 Nov 2017	$4.2900	500,000	–	–	5,000	495,000	495,000
14 Dec 2007	13 Dec 2017	$4.1373	2,000	–	–	–	2,000	2,000
8 Feb 2008	7 Feb 2018	$3.2666	11,000	–	–	–	11,000	8,250
11 Apr 2008	10 Apr 2018	$2.1135	14,000	–	–	–	14,000	10,500
23 June 2008	22 June 2018	$1.5990	53,500	–	–	–	53,500	40,125
23 Oct 2008	22 June 2018	$1.5990	200,000	–	–	–	200,000	150,000
12 Aug 2008	11 Aug 2018	$1.8170	1,234,000	–	5,750	27,750	1,200,500	897,875

32 Share-based payments (continued)

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2011								
23 Oct 2008	11 Aug 2018	$1.8170	200,000	–	–	–	200,000	150,000
23 Oct 2008	22 Oct 2018	$1.6060	132,500	–	13,500	26,500	92,500	68,125
11 Dec 2008	10 Dec 2018	$1.1607	50,000	–	–	15,000	35,000	26,250
5 Feb 2009	4 Feb 2019	$1.3380	276,000	–	63,750	3,750	208,500	104,250
23 Apr 2009	22 Apr 2019	$1.9574	5,000	–	1,250	–	3,750	1,875
23 Jun 2009	22 Jun 2019	$2.5498	1,561,000	–	125	58,375	1,502,500	751,250
21 Oct 2009	22 Jun 2019	$2.5498	200,000	–	–	–	200,000	–
Total			13,155,250	–	836,875	156,375	12,162,000	10,649,250
Weighted average exercise price			$1.693	$ –	$0.562	$ 2.256	$1.764	$1.697

There were 374,500 options forfeited during 2012 (156,375 options during 2011). The weighted average remaining contractual life of share options outstanding at the end of the period was 4.84 years (2011 – 4.68 years).

Fair value of options granted
There were no options granted during the year ended 30 June 2012.

(b) Performance Rights Plan

The Pharmaxis Performance Rights Plan was launched in September 2010 and enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as 'Performance Rights' to eligible employees of the Group. Senior Executives will, together with other eligible employees be invited by the Remuneration and Nomination Committee to participate in this plan. The key features of the plan are as follows:

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position and responsibility, the employee's performance, the employee's salary, and the Pharmaxis share price.
- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The performance rights will lapse in the event the employee ceases to be an employee before the vesting date. In 2010 the Board set the vesting term as the third anniversary of the grant date. In 2012 the Board determined to vest half the performance rights two years from the grant date and the other half three years from the grant date (see comments below on 2012 grant). The Board has not imposed additional performance criteria at the point of vesting in recognition of the initial grant reflecting assessed performance, the restrictions on resale discussed below, and the current stage of the Group's development.
- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
  - for performance rights granted in 2010 shares issued upon exercise are restricted from sale for four years from grant date.
  - for performance rights granted in 2012 shares issued upon exercise are restricted from sale for three years from grant date.
  - Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

There were Nil vested performance rights at 30 June 2012. Set out below are summaries of the performance rights granted under the plan:

32 Share-based payments (continued)

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2012								
7 Sept 2010	6 Sept 2020	$ –	475,000	–	–	17,000	458,000	–
20 Oct 2010	6 Sept 2020	$ –	50,000	–	–	–	50,000	–
15 Nov 2010	14 Nov 2020	$ –	23,000	–	–	–	23,000	–
24 Jan 2011	23 Jan 2021	$ –	7,000	–	–	–	7,000	–
29 Jun 2012	28 Jun 2022	$ –	–	2,345,000	–	–	2,345,000	–
Total			555,000	2,345,000	–	17,000	2,883,000	–
Consolidated – 2011								
7 Sept 2010	6 Sept 2020	$ –	–	483,000	–	8,000	475,000	–
20 Oct 2010	6 Sept 2020	$ –	–	50,000	–	–	50,000	–
15 Nov 2010	14 Nov 2020	$ –	–	23,000	–	–	23,000	–
24 Jan 2011	23 Jan 2021	$ –	–	7,000	–	–	7,000	–
Total			–	563,000	–	8,000	555,000	–

There were 17,000 performance rights forfeited during 2012 (2011: 8,000).

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 9.7 (2011 – 9.2 years).

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2012 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

Year ended 30 June 2012				Year ended 30 June 2011			
Grant date	No. of options granted	Exercise Price	Share Price	Grant date	No. of options granted	Exercise Price	Share Price
29 Jun 2012	2,345,000	$ –	$1.025	7 Sept 2010	483,000	$ –	$1.96
				20 Oct 2010	50,000	$ –	$2.76
				15 Nov 2010	23,000	$ –	$2.72
				24 Jan 2011	7,000	$ –	$2.96
	2,345,000				563,000		

(c) Employee Share Plan

The Pharmaxis Share Plan was launched in September 2010 and will grant up to A$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, Pharmaxis Ltd may grant A$1,000 of options (refer note (d) below) in place of ordinary shares. Senior executives do not participate in this plan. Set out below are summaries of employee shares granted under the plan:

	2012	2011
Number of shares issued under the plan to participating employees	**86,000**	43,200

32 Share-based payments (continued)

(d) International Employee Equity Plan

The Pharmaxis International Employee Equity Plan was launched in September 2010 and enables the grant of up to A$1,000 of zero exercise price options to eligible employees outside Australia (referred to herein as 'International ZEPO').

There were Nil vested options at 30 June 2012. Set out below are summaries of the International ZEPO's granted under the plan:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated – 2012								
24 Sept 2010	23 Sept 2020	$ –	9,600	–	–	3,360	6,240	–
30 Aug 2011	29 Aug 2021	$ –	–	32,000	–	7,000	25,000	–
Total			9,600	32,000	–	10,360	31,240	–
Consolidated – 2011								
24 Sept 2010	23 Sept 2020	$ –	–	10,080	–	480	9,600	–
Total			–	10,080	–	480	9,600	–

There were 10,360 International ZEPO's forfeited during 2012 (480 International ZEPO's during 2011).

The weighted average remaining contractual life of International ZEPO's outstanding at the end of the period was 8.98 years (2011 – 9.2 years).

Fair value of International ZEPO's granted

The assessed fair value at grant date of International ZEPO's granted during the year ended 30 June 2012 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

Year ended 30 June 2012				Year ended 30 June 2011			
Grant date	No. of options granted	Exercise Price	Share Price	Grant date	No. of options granted	Exercise Price	Share Price
30 Aug 2011	32,000	$ –	$0.991	24 Sept 2010	10,080	$ –	$2.069
	32,000				10,080		

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2012 $'000	2011 $'000
Equity instruments issued under employee equity plans	**956**	1,567

33 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts

	2012 $'000	2011 $'000
Balance sheet		
Current assets	**86,593**	45,171
Total assets	**137,619**	98,416
Current liabilities	**5,836**	6,388
Total liabilities	**20,954**	22,388
Shareholders' equity		
Issued capital	**344,388**	267,610
Reserves		
Share-based payments reserve	**14,719**	13,848
Retained earnings	**(242,442)**	(205,429)
	116,665	76,029
Loss for the year	**(37,013)**	(44,194)
Total comprehensive income	**(37,013)**	(44,194)

(b) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $Nil (30 June 2011 – $Nil). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

6.2 Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 43 to 86 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 30 June 2012 and of its performance for the financial year ended on that date; and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Alan D Robertson
Director

Sydney
9 August 2012

6.3 Independent Auditor's Report

Independent auditor's report to the members of Pharmaxis Ltd

Report on the financial report

We have audited the accompanying financial report of Pharmaxis Ltd (the company), which comprises the consolidated balance sheet as at 30 June 2012, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Pharmaxis Ltd group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Pharmaxis Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in section 2 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Pharmaxis Ltd for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
9 August 2012

7 Shareholder Information

The shareholder information set out below was applicable as at 3 August 2012.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Class of equity security Ordinary shares	Shares	Restricted Shares	Options	Performance Rights	Performance Options
1-1000	1,256	143	–	–	25
1,001 – 5,000	2,575	–	8	–	–
5,001 – 10,000	1,262	–	15	3	–
10,001 – 100,000	1,876	1	29	43	–
100,001 and over	161	–	15	8	–
	7,130	144	67	54	25

There were 435 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number Held	Percentage of issued shares
Citicorp Nominees Pty Limited	51,040,609	16.6
National Nominees Limited	46,824,207	15.2
J P Morgan Nominees Australia Limited	39,379,118	12.8
HSBC Custody Nominees (Australia) Limited	31,673,166	10.3
J P Morgan Nominees Australia Limited (Cash Income a/c)	15,469,450	5.0
Cogent Nominees Pty Limited (SMP Accounts)	6,150,610	2.0
Phillip Asset Management Ltd	3,377,319	1.1
Citicorp Nominees Pty Ltd	3,165,489	1.0
The Australian National University	2,133,333	0.7
Dr Alan Robertson	1,505,000	0.5
MF Custodians Ltd	1,493,847	0.5
Cogent Nominees Pty Limited	1,348,224	0.4
RBC Dexia Investor Services Australia Nominees Pty Limited	1,226,938	0.4
Bond Street Custodians Limited (Macquarie Smaller Co's a/c)	1,189,268	0.4
Capital Regional et Cooperatif Desjardins	1,053,867	0.3
Bond Street Custodians Limited (Macquarie Alpha Opport a/c)	973,123	0.3
Bentale Pty Ltd	853,667	0.3
Merrill Lynch (Australia) Nominees Pty Limited	812,967	0.3
Denis Michael Hanley	810,073	0.3
HSBC Custody Nominees (Australia) Limited (NT-Comnwlth Super Corp a/c)	715,840	0.2

Unquoted equity securities

	Number Held	Number of Holders
Options issued under the Pharmaxis Ltd Employee Option Plan	8,727,500	67
Performance rights issued	2,883,000	54
Performance options issued	31,240	25

C. Substantial holders

Substantial holders in the Company are set out below:

		Number held
Orbis Global Equity Fund Limited	59,735,407	19.4%
Northcape Capital Pty Ltd	18,277,939	5.9%
Acorn Capital Limited	17,532,666	5.7%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

8 Corporate Directory

Directors

Malcolm McComas – Chairman
Alan Robertson – Chief Executive Officer
Simon Buckingham
William Delaat
Richard van den Broek
John Villiger

Company Secretary and Chief Financial Officer

David McGarvey

General Counsel

Cameron Billingsley

Registered Office

20 Rodborough Road
Locked Bag 5015
Frenchs Forest NSW 2086
Australia
Telephone: +61 2 9454 7200
Fax: +61 2 9451 3622
Email: info@pharmaxis.com.au

Web Site

www.pharmaxis.com.au

Legal Advisors

PFM Legal Pty Ltd
Level 12, 117 York Street
Sydney NSW 2000
Australia

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000
Australia

Bankers

HSBC Bank Australia Ltd
Westpac Banking Corporation

Securities Exchange Listings

Pharmaxis shares are listed on the Australian Securities Exchange (Code: PXS)
Pharmaxis American Depositary Receipts (ADRs) are traded on the US over-the-counter market (Code: PXSLY)

Share Registry

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Australia
Telephone: +61 3 9415 4000
(within Australia: 1300 855 080)
Fax: +61 3 9473 2500
www.computershare.com

American Depositary Receipts

Registrar and Transfer Agent:
BNY Mellon Shareowner Services
480 Washington Blvd., 27th floor
Jersey City, NJ 07310
United States of America
Telephone within the U.S.: (201) 680-4000
Telephone outside the U.S.: +1 201 680 6825

Incorporation Information

Incorporated in Australia
Australian Company Number 082 811 630
Australian Business Number 75 082 811 630

Pharmaxis Ltd

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