pharmaxis

2013 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 2013.

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 58) 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 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 of Consolidated Minerals Limited, BC Iron Limited, Saunders International Limited, Australasian Leukaemia and Lymphoma Group, Chairman of Fitzroy River Corporation Limited and a former director of Ocean Capital Limited. 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.

Gary J. Phillips (aged 52) was appointed Chief Executive Officer and became a member of the Board of Directors on 12th March 2013. Prior to this he was the Chief Operating Officer since June 2008, having previously served as Commercial Director from his joining the Company 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.

Alan D. Robertson, Ph.D. (age 57), was Chief Executive Officer and a member of the Board of Directors until his departure on the 12th March 2013. 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 47), 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 59), 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 62) has been a member of the Board of Directors since June 2008. Mr Delaat has over 40 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 member of other Government appointed Councils and Not-for-Profit Boards. 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 51) 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 / Consultant to 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 in sales and marketing 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 PhD 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 2013, and the number of meetings attended by each Director was:

	Board Meetings		Meetings of Committees			
			Audit		Remuneration & Nomination	
	A	B	A	B	A	B
MJ McComas	17	15	4	3	3	3
GJ Phillips	4	4	–	–	–	–
AD Robertson	13	13	–	–	–	–
WL Delaat	17	16	4	4	–	–
RA van den Broek	17	17	1	1	3	3
J Villiger	17	14	–	–	3	3
SHW Buckingham	16	16	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 $74,332 was paid to insure the directors and officers of the Group for the policy year ended 26 September 2013. 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 2013 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 2013 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.

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Pharmaxis Ltd for the year ended 30 June 2013, 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

Sydney
14 August 2013

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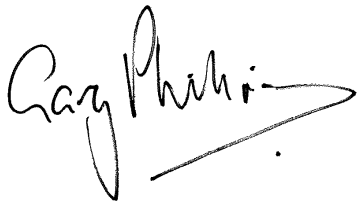
1.16 Auditor

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.



Gary J Phillips
Director

Sydney
14th August 2013

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:

The building of an international speciality pharmaceutical business requires a board and senior management team with technical capability and relevant industry and geographic market experience. Competitive remuneration practices are required to attract, retain and incentivise such executives and directors. 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 is building an international pharmaceutical business. Pharmaxis has therefore developed a number of products through the clinical, regulatory and approval process, constructed a commercial scale manufacturing facility and introduced Aridol and Bronchitol onto world markets.
- In order to obtain the experience required, it has been necessary to recruit both directors and management from the international marketplace.

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. Individual and Group performance targets are agreed by the Remuneration and Nomination Committee and the full Board each year. The 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 developing 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

Until the current time, the Board has considered it appropriate for Non-Executive Directors to be granted equity in the Group on becoming a director, with the form of equity changing over this period. Before the 2010 review, Non-Executive Directors were issued options on becoming a Director of the Company, subject to shareholder approval, with the options having an exercise price equal to the market price of Pharmaxis shares at the time of grant and 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 policy was then to grant newly appointed directors zero grant and zero exercise priced options over shares in the Group, subject to shareholder approval in each instance. The options 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, before the introduction of zero exercise priced options to the Group, a newly appointed director was granted restricted shares on equivalent terms. The Board resolved during the current year to discontinue its practice of granting equity to newly appointed directors.

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 was 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 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 grants up to $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 $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.

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 Board has adopted different vesting terms and conditions to suit the business conditions in the year of grant. The performance rights 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.
  - For the 2010 and 2012 grants, the Board did not impose 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.
  - The vesting terms of performance rights granted in 2013 were developed in conjunction with the revised business plan announced in May 2013. The performance rights vest in three installments. Thirty percent vest on 31st January 2014 with no performance criteria and are designed to provide a retention incentive to Senior Executives and other key employees over what is expected to be a particular challenging time. Thirty five percent vest on 31st July 2014 and the other thirty five percent vest on 31st July 2015. The last two vesting dates are subject to the achievement of corporate and personal objectives tied to the revised business plan.

Equity Remuneration Granted to Senior Executive Officers (continued)

- 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.
  - for performance rights granted in 2013 shares issued upon exercise are not subject to any sale restriction. The Directors have chosen to utilise the 2013 grant of performance rights as a (non-cash) retention and performance incentive closely tied to the revised business plan and has therefore chosen not to impose any sale restrictions other than as described immediately below.
  - 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.

The Board revised fees paid to Non-Executive Directors in 2012 and reported on the changes in the 2012 Remuneration Report. 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 were 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.
- a base fee of $70,000 is paid to Non-Executive Directors other than the Chairman, including any applicable statutory superannuation;
- a flat annual fee for Non-Executive Directors (other than the Chairman) serving on committees of $5,000 as a committee member and $10,000 as a committee chairman;

Refer above for disclosures in relation to the granting of zero grant zero exercise priced options in the Group to Non-Executive Directors on first joining the Board.

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 for the financial year ended 30 June 2013 increasing to 9.25 percent of base salary commencing 1 July 2013;
- 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 2013 was 2%, compared to 4% at 1 January 2012.

In establishing the 2013 target variable cash incentives, the Board determined the following percentage of base salary as the appropriate quantum:

- Chief executive officer: 30%
- Chief operating officer: 25%
- Other Senior Executives: 20%

Furthermore the Board allocated 50 percent of each individual Senior Executive's performance to the achievement of 2013 corporate objectives as contained in the Group's 2013 business plan and 50 percent to the achievement of individual objectives, again contained in the 2013 business plan.

Corporate objectives for 2013 included:

- The successful launch of Bronchitol in Europe and Australia as measured by CF centres initiating Bronchitol; the number of patients trialed on Bronchitol, and sales of Bronchitol
- Strengthening the Company's balance sheet by a non-equity funding arrangement
- FDA approval of Bronchitol for CF
- Completion of the Phase 3 trial in bronchiectasis and commencement of the European Phase 2 clinical trial in paediatric patients
- Obtaining final Bronchitol manufacturing approvals for 20 Rodborough Road
- Positive contribution from Aridol
- Several development milestones for the development pipeline including SSAO, LOXL2, ASM8 and PXS64

The Board assessed overall performance in achieving the 2013 corporate objectives at 25%. The assessed performance of individual Senior Executive's performance varied according to their specific responsibilities.

Termination payments

Termination payments apply only to Executive Directors and Senior Executive Officers. The employment contract for the Chief Executive Officer can be terminated immediately by us for serious misconduct and with six months' notice without cause. Employment contracts for Senior Executive Officers can be terminated immediately by us for serious misconduct and with a maximum of 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, ASM8, SSAO and other early stage assets.

During the current the year the Committee resolved to:

- not approve the vesting for Senior Executive Officers of the final quarter of options granted on the 23rd June 2009 under the Employee Option Plan;
- for all other employees, excluding selected direct reports to senior managers, approve the vesting of all options granted under the Employee Option Plan due to vest at 30 June 2013;
- grant a total of 7.9 million performance rights to 20 key employees, including 4,495,000 to Senior Executive Officers, as retention incentives and medium term performance bonuses to align performance to the major business transforming milestones being pursued by the Company over the next two years.

The Board has also resolved to grant 2,000,000 Performance Rights to the Chief Executive Officer, subject to shareholder approval at the 2013 annual general meeting.

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***
Gary Jonathan Phillips	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
Mirella Catherine Gallacé	Operational Effectiveness	Pharmaxis Ltd
Wolfgang Jarolimek	Head of Drug Discovery	Pharmaxis Ltd
David Morris McGarvey	Chief Financial Officer and Company Secretary	Pharmaxis Ltd
Geethanjali Velummylum	Head of Regulatory Affairs	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, and for components of the 2013 grant are not vested, unless approved by the Remuneration & Nomination Committee. Other elements of remuneration are not directly related to performance.

Subsequent to the appointment of Mr Gary Phillips as Chief Executive Officer ('CEO') in March 2013 the heads of Regulatory Affairs and Operational Effectiveness report directly to the CEO and are therefore members of the Senior Executive team. These appointments were made effective 25th March 2013 and the remuneration table below reflects their full year cash earnings and other non-cash benefits. Both appointees were existing employees as at 1 July 2012. Other changes in management during the current year included Dr AD Robertson who resigned on 12th March 2013, replaced by Mr GJ Phillips, previously a member of the Senior Executive Team in his former role as Chief Operating Officer, and Dr Ian McDonald who retired as Chief Scientific Officer during the year. The Senior Executive team currently consists of eight members.

2013	Short-term benefits		Post employ-ment benefits	Total Cash Remunera-tion	Long-term benefits	Share-based payment	Total
Name	Cash salary or Directors' fees A$	Cash bonus/ incentive A$	Super-annuation A$	A$	Long service leave[7] A$	Value[9] A$	A$
Non-executive Directors							
MJ McComas Chairman	125,000	–	–	125,000	–	–	125,000
WL Delaat	80,000	–	–	80,000	–	–	80,000
J Villiger	75,000	–	–	75,000	–	–	75,000
R van den Broek	75,586	–	–	75,586	–	–	75,586
SHW Buckingham[1]	70,365	–	–	70,365	–	13,000	83,365
Sub-total Non-executive Directors	**425,951**	**–**	**–**	**425,951**	**–**	**13,000**	**438,951**
Executive Directors							
GJ Phillips[2]	362,007	47,746	30,333	440,086	30,042	90,196	560,324
AD Robertson[3]	545,547	–	34,100	579,647	–	131,417	711,064
Senior Executive Officers							
B Charlton	305,401	29,301	27,486	362,188	16,090	96,767	475,045
JF Crapper	286,668	28,954	23,819	339,441	11,769	96,343	447,553
HG Fox	305,403	32,385	27,486	365,274	3,401	106,595	475,270
MC Gallacé[6]	95,657	14,467	8,609	118,733	2,673	26,688	148,094
WG Jarolimek[5]	200,751	19,865	18,068	238,684	2,242	74,351	315,277
IA McDonald[4]	22,284	–	856	23,140	(25,420)	–	(2,280)
DM McGarvey	317,873	36,917	28,609	383,399	14,288	96,979	494,666
G Velummylum[6]	207,050	21,955	18,635	247,640	2,242	40,880	290,762
Totals	**3,074,592**	**231,590**	**218,001**	**3,524,183**	**57,327**	**773,216**	**4,354,726**

(1) S Buckingham was appointed a director on 25th July 2012.

(2) GJ Phillips was appointed as Chief Executive Officer on 12th March 2013. The cash salary includes payment of $24,848 being the pay down of excess annual leave entitlement.

(3) AD Robertson resigned as Chief Executive Officer on 12th March 2013. The cash remuneration includes payment of three months notice on termination of his employment contract, and payment of accrued leave benefits including long service leave.

(4) IA McDonald retired on 31st July 2012.

(5) W Jarolimek was appointed on 1st August 2012 following the retirement of IA McDonald. The remuneration represents his full year cash earnings and other non-cash benefits.

(6) M Gallacé and G Velummylum were appointed on 25th March 2013. The remuneration represents their full year cash earnings and other non-cash benefits.

(7) Represents accrued entitlement to long service leave. The negative balance for IA McDonald represents reversal of his long-term accrual entitlement on departure. As noted for AD Robertson the cash salary included payment of his accrued long service leave benefit.

(8) There were no non-monetary benefits provided.

(9) 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.

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

2012	Short-term benefits		Post employ-ment benefits	Total Cash Remunera-tion	Long-term benefits	Share-based payment	Total
Name	Cash salary or Directors' fees A$	Cash bonus/ incentive A$	Super-annuation A$	A$	Long service leave[5] A$	Value[1] A$	A$
Non-executive Directors							
MJ McComas[2]							
Chairman	89,167	–	–	89,167	–	–	89,167
WL Delaat[3]	84,833	–	–	84,833	–	11,575	96,408
J Villiger	65,000	–	–	65,000	–	–	65,000
R van den Broek	65,833	–	–	65,833	–	26,299	92,132
DM Hanley[4]	97,566	–	8,601	106,167	–	–	106,167
Sub-total Non-executive Directors	**402,399**	**–**	**8,601**	**411,000**	**–**	**37,874**	**448,874**
Executive Director							
AD Robertson	388,551	82,500	34,970	506,021	17,286	156,887	680,194
Senior Executive Officers							
B Charlton	296,565	67,163	26,691	390,419	13,193	65,998	469,610
JF Crapper	278,407	45,418	24,958	348,783	8,701	65,998	423,482
HG Fox	287,156	90,357	25,000	402,513	5,549	78,928	486,990
IA McDonald	111,989	15,985	10,079	138,053	7,061	65,998	211,112
DM McGarvey	308,673	50,356	27,781	386,810	9,949	65,998	462,757
GJ Phillips	307,002	89,090	27,630	423,722	8,970	65,998	498,690
Totals	**2,380,742**	**440,869**	**185,710**	**3,007,321**	**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.

(5) Represents accrued entitlements to long service leave.

(6) There were no non-cash benefits provided.

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 Group and 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 for serious misconduct. For any other termination without cause, the Company is required to provide the Chief Executive Officer six months notice and other Senior Executive Officers have a maximum of three months notice. During the above noted notice periods, the employee is entitled to 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 July 2013[2] $	Superannuation Contributions[3] $
Gary J Phillips, *Chief Executive Officer and Managing Director*	Evergreen	$388,000	$34,920
Brett Charlton, Ph.D., *Medical Director*	30 June 2014	$308,428	$28,530
John F Crapper, *Operations Director*	30 June 2014	$289,543	$26,783
Howard G Fox, MB, BS *Chief Medical Officer*	30 June 2015	$308,428	$28,530
Mirella C Gallacé *Operational Effectiveness*	Evergreen	$188,000	$17,390
Wolfgang G Jarolimek *Head of Drug Discovery*	31 December 2013	$209,100	$19,342
David M McGarvey, C.A., *Chief Financial Officer and Company Secretary*	30 June 2014	$321,020	$29,694
Geethanjali Velummylum *Head of Regulatory Affairs*	Evergreen	$209,100	$19,342

(1) Subject to earlier termination by us, the terms of a Senior Executive Officer's employment with a fixed contract term 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) Effective 1 July 2013 the Company makes superannuation fund contributions equal to 9.25% of the annual base salary per year for the benefit of the Senior Executive Officers. For the Chief Executive Officer the Company makes superannuation fund contributions equal to 9% of the annual base salary per year.

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 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.

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 option grantees	Date exercisable
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.

(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 Non-Executive Directors in this or future reporting periods are as follows:

Subsequent to receipt of shareholder approval on 18 October 2012, the Group granted 30,000 zero consideration, zero exercise priced options to Dr Simon Buckingham on the following terms:

Grant date	18 October 2012
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 in 2010 and 2012 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.

For the performance rights granted to Senior Executive Officers and nominated employees in 2013, the Board has imposed additional performance criteria on the components that vest at 31 July 2014 and 31 July 2015 to align with achievement of corporate objectives.

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 option 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
18 October 2012	28 June 2022	$ Nil	$1.30	200,000	1	50% at 29 June 2014 and 50% at 29 June 2015
18 October 2012	17 October 2022	$ Nil	$1.30	30,000	1	100% at 17 October 2015
7 June 2013	6 June 2023	$ Nil	$0.145	4,495,000	7	30% at 31 January 2014, 35% at 31 July 2014 and 35% at 31 July 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.

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

Equity Grants in 2013 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	
	2013			2012	2013	2012
	Expiration Date	Exercise Price	Number	Number		
Directors of Pharmaxis Ltd						
MJ McComas *Chairman*	–	–	–	–	–	–
GJ Phillips *Chief Executive Officer*	–	–	–	–	–	75,000
AD Robertson	–	–	–	–	–	250,000
J Villiger	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	50,000
R van den Broek	–	–	–	–	–	–
SHW Buckingham	–	–	–	–	–	–
Senior Executive Officers						
B Charlton	–	–	–	–	–	75,000
JF Crapper	–	–	–	–	–	75,000
HG Fox	–	–	–	–	**62,500**	100,000
MC Gallacé	–	–	–	–	–	–
WG Jarolimek	–	–	–	–	–	–
IA McDonald	–	–	–	–	–	75,000
DM McGarvey	–	–	–	–	–	75,000
G Velummylum	–	–	–	–	–	7,500

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.

Name	Performance rights granted during the year				Number of rights vested during the year	
	2013			2012	2013	2012
	Expiration Date	Exercise Price	Number	Number		
Directors of Pharmaxis Ltd						
MJ McComas *Chairman*	–	–	–	–	–	–
GJ Phillips *Chief Executive Officer*	–	–	(1)	150,000	–	–
AD Robertson	28 June 2022	–	200,000	–	–	–
DM Hanley	–	–	–	–	–	–
J Villiger	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–
R van den Broek	–	–	–	–	–	–
SHW Buckingham	17 October 2022	–	30,000	–	–	–
Senior Executive Officers						
B Charlton	6 June 2023	–	775,000	150,000	–	–
JF Crapper	6 June 2023	–	725,000	150,000	–	–
HG Fox	6 June 2023	–	770,000	150,000	–	–
MC Gallacé	6 June 2023	–	380,000	32,000	7,000	–
WG Jarolimek	6 June 2023	–	520,000	150,000	–	–
DM McGarvey	6 June 2023	–	800,000	150,000	–	–
G Velummylum	6 June 2023	–	525,000	70,000	–	–

(1) The directors have resolved to grant 2,000,000 performance rights to GJ Phillips 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 2014.

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	
			2013	2012
Directors of Pharmaxis Ltd				
MJ McComas	4 July 2003	$0.3125	–	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
JF Crapper	1 July 2003	$0.1725	180,000	–
DM McGarvey	12 May 2003	$0.1725	480,000	480,000

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 2013.

Name	Cash bonus		Options					
	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 $
GJ Phillips	53	47	2009	–	25	–	–	–
AD Robertson	–	100	–	–	–	–	–	–
B Charlton	48	52	2009	–	25	–	–	–
JF Crapper	50	50	2009	–	25	–	–	–
HG Fox	53	47	2009	–	25	–	–	–
			2009	25	–	–	–	–
MC Gallacé	68	32	–	–	–	–	–	–
WG Jarolimek	48	52	–	–	–	–	–	–
IA McDonald	–	–	2009	–	25	–	–	–
DM McGarvey	58	42	2009	–	25	–	–	–
G Velummylum	53	47	2009	–	25	–	–	–

The Remuneration and Nomination Committee has determined that performance targets set by the Committee in relation to options granted on the 23rd June 2009 and vesting at 30 June 2013 were not achieved by all executives.

Details of Director and Senior Executive Officer Remuneration: Performance Rights

Performance rights granted in 2010 will vest 100% three years from the date of grant 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 and 50% three years from the date of grant, provided the Senior Executive Officer remains an employee of the Group at the relevant vesting date. Performance rights granted 2013 will vest in three installments. Thirty percent on 31st January 2014 (no performance criteria), thirty five percent will vest on 31st July 2014 and the remainder will vest on 31st July 2015. The last two vesting dates are subject to achievement of set performance criteria. The Senior Executive Officer also needs to remain 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 2013.

Name	Performance Rights					
	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	–	–	–	–	–	–
GJ Phillips	2012	–	–	2014 to 2015	89,688	89,688
AD Robertson	2013	–	–	2014 to 2015	119,583	119,583
J Villiger	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–
SHW Buckingham	2013	–	–	2014 to 2016	26,000	26,000
B Charlton	2012 2013	– –	– –	2014 to 2015 2014 to 2016	89,688 30,455	89,688 105,804
JF Crapper	2012 2013	– –	– –	2014 to 2015 2014 to 2016	89,688 28,490	89,688 98,978
HG Fox	2012 2013	– –	– –	2014 to 2015 2014 to 2016	89,688 30,258	89,688 105,122
MC Gallacé	2012 2013	– –	– –	2014 to 2015 2014 to 2016	19,133 14,933	19,133 51,878
WG Jarolimek	2012 2013	– –	– –	2014 to 2015 2014 to 2016	89,688 20,434	89,688 70,991
DM McGarvey	2012 2013	– –	– –	2014 to 2015 2014 to 2016	89,688 31,437	89,688 109,217
G Velummylum	2012 2013	– –	– –	2014 to 2015 2014 to 2016	41,854 20,631	41,854 71,674

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

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 $
MJ McComas	–	–	–	–
GJ Phillips	–	–	–	–
AD Robertson	–	–	–	–
WL Delaat	–	–	–	–
J Villiger	–	–	–	–
R van den Broek	–	–	–	–
SHW Buckingham	–	–	–	–
B Charlton	–	–	–	5,250
JF Crapper	–	–	168,750	5,250
HG Fox	–	–	–	5,250
MC Gallacé	–	–	–	–
WG Jarolimek	–	–	–	–
IA McDonald	–	–	–	5,250
DM McGarvey	–	–	514,240	5,250
G Velummylum	–	–	–	1,050

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 in prior years as part of remuneration 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.

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 $
MJ McComas	–	–	–	–
GJ Phillips	–	–	–	–
AD Robertson	34%	260,000	–	–
WL Delaat	–	–	–	–
J Villiger	–	–	–	–
R van den Broek	–	–	–	–
SHW Buckingham	36%	39,000	–	–
B Charlton	23%	112,375	–	–
JF Crapper	23%	105,125	–	–
HG Fox	23%	111,650	–	–
MC Gallacé	31%	55,100	–	–
WG Jarolimek	24%	75,400	–	–
IA McDonald	–	–	–	–
DM McGarvey	23%	116,000	–	–
G Velummylum	23%	76,125	–	–

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 in prior years as part of remuneration 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:

Equity Plan movement	Number
Total unissued ordinary shares under plans at 30 June 2013 – refer Note 32 to the Annual Financial Report included in Section 6 of this Statutory Annual Report	18,571,165
Options exercised (shares issued) during the period from 1 July 2013 to 14 August 2013	–
Options lapsed during the period from 1 July 2013 to 14 August 2013	(118,500)
Performance rights exercised (shares issued) during the period from 1 July 2013 to 14 August 2013	(5,000)
Performance rights lapsed during the period from 1 July 2013 to 14 August 2013	(30,000)
Zero exercised priced options lapsed during the period from 1 July 2013 to 14 August 2013	–
	18,417,665

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 2013 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
12 May 2003	$0.1725	480,000
1 July 2003	$0.1725	180,000
2 February 2005	$0.6940	175,000
		835,000

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 2013 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 have 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. The 2013 review has been scheduled for the second half of the calendar year.

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.

3.2 ASX Disclosures (continued)

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.

Mr Phillips 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 2013 and the number of meetings attended by each member is detailed in Section 1.2 of this Statutory Annual Report.

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 the Board performance survey, separately completed by committee members in relation to their respective committee. 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 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.

3.2 ASX Disclosures (continued)

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 comprised 51% of total employees.
- Two female employees were promoted to Senior Executive Officers during 2013.
- 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 twelve percent to fifteen 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. One hundred 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	2013 (30 June)		2012 (30 April)	
	Male	**Female**	**Male**	**Female**
Non-executive directors	5	–	5	–
Senior managers[1]	6	2	8	–
Direct reports to senior managers	8	6	10	8
Other employees	47	56	51	68
Total employees	**61**	**64**	**69**	**76**

Notes:

(1) Includes Chief Executive Officer

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 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 2013 and the number of meetings attended by each member is detailed in Section 1.2 of this Statutory Annual Report.

As noted above, a component of the Audit Committee's role is the appointment of the external auditor and overseeing the independence of the external auditor. PricewaterhouseCoopers was appointed as external auditor by the shareholders in 2003. Mr Mark Dow was appointed as the Company's lead audit engagement partner for the year ending 30 June 2008. The Corporations Act requires the rotation of the lead audit partner of a company at least every five years. This means that, in the ordinary course, Mr Dow would have been rotated and replaced with another audit engagement partner at the conclusion of the 2012 reporting season.

However, in June 2012, the Audit Committee and Board considered the impact of the rotation of Mr Dow at the conclusion of the 2012 reporting season. The Audit Committee and Board resolved that it believed that compliance with the rotation requirements for the 2013 year would impose an unreasonable burden on Pharmaxis.

In providing this approval the Audit Committee and Board were satisfied that the extension:

- was consistent with maintaining the quality of the audit provided to the Company; and
- would not give rise to a conflict of interest situation (as defined in the Corporations Act) and, thereby, impair Mr Dow's independence.

In particular, in relation to audit quality, the Board noted that, amongst other things:

- The Company had undergone substantial change over the past five years and the company will undergo further significant transformation and increased complexity in the next two to five years.
- As such, the Board and Audit Committee considered that while the Company continued its transformation activities, it was important that the detailed knowledge and understanding that Mr Dow had built up in relation to the Company and its industry over the past five years is retained to ensure the quality of the audit of the Company for shareholders over the coming years.

3.2 ASX Disclosures (continued)

The Audit Committee was satisfied that the approval would not give rise to a conflict of interest situation because:

- Management and the Audit Committee were not aware of any such conflicts in relation to PricewaterhouseCoopers or Mr Dow and did not believe that the extension of his term would give rise to any such conflicts; and
- The Company has in place a detailed governance framework to ensure that such conflicts do not arise.

Accordingly, the Company sought and obtained a declaration from the Australian Securities and Investments Commission under section 342A of the Corporations Act to extend the term of Mr Dow for an additional year. This allowed Mr Dow to remain as lead auditor for the financial year ending 30 June 2013.

It is also the policy of the external auditor to provide an annual declaration of their independence to the Audit Committee (page 6).

Fees paid to the external auditor, including a breakdown of fees for non-audit services, are reported in note 22 to the Financial Statements.

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; and
- Chief Medical 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 utilize 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.

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.

3.2 ASX Disclosures (continued)

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 14th August 2013.

Gary J. Phillips., Refer to Directors' Report.

Brett Charlton, Ph.D., (aged 57) is a co-founder of Pharmaxis and has been Medical Director 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 16 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 61) 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 50) has been Chief Medical Officer since February 2009. Dr Fox has responsibility for 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.

Mirella C. Gallacé (aged 31) BArts/BSc MBA has responsibility for process improvement and development, implementation of project management principles and employee learning and development, and was appointed to Operational Effectiveness in March 2013. Ms Gallacé joined Pharmaxis in January 2010 and has a decade of experience in the international pharmaceutical industry. Ms Gallacé held senior strategic planning and project management roles at Pharmaxis, and prior to 2010, was most recently deployed as an accredited Six Sigma Black Belt with responsibility for Australia and New Zealand at Eli Lilly & Co. Ms Gallacé holds a B. Arts in English Literature with Honours and a B. Sc in Advanced Life Sciences, both from the University of New South Wales, as well as a MBA from the Macquarie Graduate School of Management.

Wolfgang G. Jarolimek (aged 49) joined Pharmaxis in September 2010 as Manager in vitro Pharmacology and was appointed Head of Drug Discovery in August 2012. Dr Jarolimek has more than 15 years experience in pharmaceutical drug discovery and has published more than 20 peer reviewed articles. From 2002 to 2010 Dr Jarolimek was Director of Assay Development and Compound Profiling at the GlaxoSmithKline Center of Excellence in Drug Discovery in Verona, Italy. In addition to chairing early drug discovery efforts locally he also had global responsibilities for ion channel screening and implementing safety-related screening. From 1998 to 2002 Dr Jarolimek worked at the Neuroscience Center of Merck, Sharp and Dohme in Harlow, England, as Senior Research Scientist in the electrophysiology group. Prior to joining pharma companies he spent 8 years as post-doc at the Max-Plank Institute in Munich, Germany; Baylor College of Medicine, Houston, Texas; Rammelkamp Center, Cleveland Ohio; and University of Heidelberg, Germany. Dr Wolfgang Jarolimek holds a B.Sc. in Pharmacy and a PhD from the University of Saarbrücken, Germany. In 1997 he became Assistant Professor in Physiology at the University of Heidelberg, Germany.

4 Senior Management (continued)

David M. McGarvey, C.A., C.P.A., (aged 57) has been Chief Financial Officer and Company Secretary since December 2002. Mr McGarvey has twenty six 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.

Geethanjali Velummylum (aged 50) has been Head of Regulatory Affairs at Pharmaxis since February 2009. She has 20 years of extensive experience within the pharmaceutical industry including regulatory, pharmacovigilance and quality control. Prior to Pharmaxis she held the position of Associate Director – Regulatory, Development and Commercialisation at Kendle Pty Ltd. She has held leadership positions with Actelion Australia where she was Regional Medical Director for Asia Pacific, and as Scientific Affairs Manager at GlaxoSmithKline and Janssen Cilag. She has also worked as a Scientific Advisor to Medsafe-New Zealand.

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. The Company's financial year ends on 30 June.

5.1 Review of 2013 Operations

Overview

Pharmaxis is a specialty pharmaceutical company with activities spanning product research and development through to manufacture, sales and marketing. The Company is producing human healthcare products to treat and manage respiratory diseases and is most advanced in the development of products for asthma, cystic fibrosis and bronchiectasis. The Company also has an active research and development program designed to produce a series of products for world markets over the coming years.

The key developments during the year were:

- Due to the uncertainty of regulatory approval processes the Company sought to negotiate a US$40 million non-equity, non-debt, financing agreement to mitigate the risks to the Company of US approval not being obtained, US sales revenue being deferred and additional clinical work being necessary. On the 31st January 2013, the Company announced the signing of a Financing Agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest will invest up to US$40 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the EU and US. As consideration for its investment, NovaQuest will receive payments based upon the EU and US sales revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU and seven years from the launch of Bronchitol in the US. The payments are determined by reference to EU and US sales revenue bands and corresponding annual payment percentages which vary over the term of the agreement to reflect the expected growth in Bronchitol sales, and decrease in the event that the total investment is below the maximum US$40 million. US$20 million of this facility was drawn down after closing and the remaining $20 million is available upon commencement of a Phase 3 clinical trial in cystic fibrosis.
- On the 12th March 2013, Mr GJ Phillips was appointed as Chief Executive Officer following the resignation of Dr AD Robertson. Mr Phillips was previously a member of the Senior Executive Team in his former role as Chief Operating Officer.
- On the 19th March 2013, the Company announced it had received a complete response letter from the Food and Drug Administration (FDA) confirming Bronchitol cannot yet be approved for marketing for the treatment of cystic fibrosis (CF) in the United States. The Company met with the FDA in May 2013 and agreed that the clearest and most expeditious regulatory path forward is to conduct a further single pivotal trial in adults aged 18 years and over.
- In April 2013, the Company announced its Phase 3 clinical trial (B305) assessing the effectiveness of Bronchitol in people with bronchiectasis did not meet the trial's primary endpoint of demonstrating a significant difference in the rates of defined pulmonary exacerbations. The trial did however show a positive trend in the primary endpoint and a number of statistically significant secondary endpoints were achieved. These included a delay in the time to a first exacerbation, reduced days on antibiotics and improved quality of life.

  The Company is examining the extensive trial database, in particular in relation to identifying subgroups that may demonstrate increased responsiveness. Discussions will be held with regulatory authorities to determine the most appropriate clinical trial path based on the B305 analyses.

5.1 Review of 2013 Operations (continued)

- In response to the setback in receiving a new drug approval in the US, and other developments noted below, the Company undertook a business review and implemented plans aimed at delivering significant reductions in the group's expense base and increased focus on partnering strategies to grow the value of the Company's assets. The core elements of the plan are targeted at:
  - seeking to partner Bronchitol in CF for the US market to take responsibility for the Phase 3 clinical trial required to satisfy the requirements of the US regulator and for the commercial launch in the US. While difficult to forecast, the Company expects this process to conclude towards the end of the 2013 calendar year;
  - retaining and growing direct commercial interest in Bronchitol for CF markets outside the US with a focus on revenue generation;
  - seeking to partner Bronchitol in bronchiectasis;
  - seeking alternative funding to maintain progress in the Company's current R&D programs; and
  - implementing a plan to eliminate capability no longer required for the group's current business plan by the end of the 2013 calendar year. The plan reduces annual costs by approximately $12 million including a 30% headcount reduction. Cost reductions across the group's business units which, in conjunction with increased sales revenue will bring the Group to cash positive operations.

Bronchitol

Bronchitol is designed to restore normal lung hydration, improve lung function and to help relieve the mucus burden in the lungs of patients suffering from chronic respiratory conditions. Pharmaxis has to date received marketing approval for Bronchitol:

- in Australia (February 2011) for the treatment of cystic fibrosis in adults and paediatric patients aged over six years as either an add-on therapy to dornase alfa, or in patients intolerant of, or inadequately responsive to, dornase alfa.
- in the European Union (April 2012) for the treatment of cystic fibrosis in adults as an add on therapy to best standard of care.

Major milestones achieved during the year included:

- Bronchitol was launched in Europe in June 2012 with sales commencing initially in Germany. 2013 has seen the establishment of the German market and the Company is implementing strategies to enhance sales growth.
- Bronchitol received Australian PBS listing from 1st August 2012.
- The National Institute for Health and Clinical Excellence in the United Kingdom issued a positive recommendation in its Final Appraisal Determination for Bronchitol in October 2012, clearing the way for reimbursement by the National Health Service. The listing of Bronchitol on individual hospital formularies was largely completed by the end of the financial year.
- As noted above, the FDA confirmed Bronchitol cannot yet be approved for marketing for the treatment of cystic fibrosis in the United States. The Company has subsequently agreed a path forward with the FDA to address the matters outlined in the FDA's complete response letter.
- The Company has appointed an exclusive distributor and sales representative for Bronchitol in Brazil, and a separate distributor for Bronchitol in Poland and ten other Eastern European countries.
- On the 20th June 2013, the Company announced that it had enrolled the first subject into its European paediatric clinical trial evaluating Bronchitol in cystic fibrosis. The Phase 2 trial being conducted in Europe and Canada is a requirement of Bronchitol's earlier European marketing approval for adults and if positive will form part of an application to extend this approval to treat children and adolescents in the EU with cystic fibrosis.

Aridol

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

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.

On the 28th May 2013, the FDA issued an import ban on the entry of Aridol into the United States pending resolution of violations of current good manufacturing practices in the packaging of the Aridol capsules undertaken by the Company's outsourced contract packaging supplier. The Company is working with the FDA to implement required corrective actions to have this ban lifted as soon as possible.

The Group continues the process of advancing product awareness and market penetration.

Other

The Company is advancing its early stage asset pipeline and two of its research projects conducted in conjunction with the University of Sydney have been awarded funding under the Australian Research Council Linkage Projects scheme.

5.2 Results of Operations

Sales and Gross Profit

Year ended 30 June	**2013 A$**	2012 A$
In thousands		
Australia	**646**	269
Europe	**1,745**	336
Korea	**366**	373
United States	**480**	353
	3,237	1,331

The above table includes $1,728,000 (2012: $16,000) of Bronchitol sales subsequent to its commercial launch in June 2012.

Gross profit was approximately 65 percent and 61 percent of sales in 2013 and 2012 respectively.

Other revenue – interest

Interest income decreased from $3.0 million in 2012 to $2.7 million in 2013. The average available funds on hand were comparable over the two years. The decrease was driven by lower average interest rate yields in 2013 compared to 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 2013 and an adjustment which increases the R&D tax incentive credits actually received by the Company for the year ended 30 June 2012. The 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 2013 financial year.

5.2 Results of Operations (continued)

Sales and marketing expenses

Sales and marketing expenses are focused on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Sales and marketing expenses were $13.9 million in 2013 compared to $11.1 million in 2012. The increase in sales and marketing expenses is predominantly attributable to the ongoing investment in commercial infrastructure and resources to support the launch of Bronchitol in Europe. Investment was also focused on the scale-up of commercial resources in the United States in anticipation of approval for Bronchitol in that market. Subsequent to the receipt of the FDA complete response letter confirming that Bronchitol cannot yet be approved for marketing in the United States and implementation of the revised business plan, the company scaled down its US cost base towards the end of the financial year.

Safety, medical and regulatory affairs expenses

Safety, medical and regulatory affairs expenses are directed at monitoring and reporting product safety to regulatory agencies, reviewing material provided to clinicians and patients by the Company and obtaining and maintaining product approvals. This category of expenses were $5.6 million in 2013 compared to $4.9 million in 2012. The increase is partly attributable to higher regulatory spend associated with the US NDA regulatory filing and application process. In addition, the Company has a post marketing commitment as part of its European Union Bronchitol marketing authorisation approval, to undertake a prospective observational safety study of Bronchitol in adult cystic fibrosis patients over a 5 year period. The first year costs of this study are reflected in the expenses of the medical group in 2013.

Research and development expenses

Research and development expenses are classified into two core components as follows.

Bronchitol development expenses
Bronchitol related research and development expenses were $18.5 million in 2013 compared to $19.8 million in 2012, a decrease of $1.3 million in fiscal 2013. There are three contributors to this group of expenses:

1. The clinical unit, which designs and monitors the clinical trials run by the group, accounted for approximately 42 percent of the total Bronchitol related research and development expenditure in 2013. Expenditure decreased by approximately $1.9 million compared to 2012, driven by a decrease in costs directed at hospitals and other services related to the conduct and analysis of clinical trials due to a decrease in the number of trials in the active dosing phase. During 2013, the clinical group was focused on completing the large Phase 3 Bronchiectasis trial which reported in April 2013.
2. During fiscal 2013, the manufacturing facility at French's Forest continued to be 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 54 percent of Bronchitol related research and development expenditure in 2013 and increased by approximately $0.6 million compared to 2012. One contributing driver to this increase was additional costs incurred on development of our new inhalation device.
3. Amortisation of patent costs is a component of research and development. Patent amortisation related to our new orbital device accounted for approximately 4 percent of Bronchitol research and development expenditure in 2013, which is consistent with 2012.

New drug development expenses

New drug development related research and development expenses were $5.3 million in 2013 compared to $4.5 million in 2012, an increase of $0.8 million in fiscal 2013. The two contributors to this group of expenses are:

1. The drug discovery and development unit accounted for approximately 81 percent of the new drug development expenditure in fiscal 2013. It is focused on inflammatory and respiratory drug discovery. Expenditure increased by approximately $0.8 million compared to 2012 reflecting an increased level of external based development work associated with target candidate validation.
2. Amortisation of patent costs is a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals, Inc in the first half of 2010. Patent amortisation accounted for approximately 19 percent of new drug development expenditure in 2013 compared to 22% in 2012.

Both Bronchitol and new drug development expenses are the basis for the R&D Tax Incentive income discussed above.

Administration expenses

Administration expenses include accounting, compliance, public company costs and operational effectiveness. Administration expenses were $6.0 million in 2013 and $5.2 million in 2012. The increase of $0.8 million was in part driven by costs associated with negotiating the NovaQuest financing agreement (as discussed above) and the transfer to administration of the Group's project/resource management capability (from 1 April 2013), previously included in sales and marketing.

Finance & royalty expenses

Finance and royalty expenses were $2.9 million in 2013 compared to $0.9 million in 2012. There are three components to this group of expenses.

1. Finance charges associated with the capitalised finance lease of our corporate manufacturing facility at French's Forest, Sydney. This accounts for approximately 28% in 2013 compared to 90% in 2012.
2. Accrued finance costs up to 30 June 2013 in relation to the NovaQuest financing agreement. Pursuant to the agreement, finance related cash payments commence in the second half of 2014, however Australian Accounting Standards require the finance costs to be accrued from the commencement of the contract term. This accounts for approximately 69% of the finance cost base in 2013. The financing agreement with NovaQuest was entered into during the 2013 financial year and hence there was no comparable cost in 2012.
3. The Company previously 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 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 2013 royalties were only payable on sales of Aridol and accounted for approximately 3% of the finance and royalty expenses.

Restructure expenses

As outlined in the review of operations, the Company has implemented a business review and cost saving program. The restructuring expense in 2013 relates to committed obligations that the Company has announced and implemented related to employee redundancies and facility closures and consolidations. These obligations will be settled during the first half of 2014.

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 sales and marketing expenditures on a cost plus basis, upon which tax is payable. The tax credit in 2012 reflected 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.

5.2 Results of Operations (continued)

Loss

The loss increased from $38.6 million in 2012 to $43.5 million in 2013 due to the movement in operating expenses discussed above, offset by revenue growth.

Basic and diluted net loss per share

Basic and diluted net loss per share was $0.141 in 2013 compared to $0.142 in 2012.

5.3 Liquidity and Capital Resources

Since inception, Pharmaxis operations have been financed through a combination of the following sources.

- Issuance of equity securities and initially, by the issuance of convertible redeemable preference shares. Through to 30 June 2013, Pharmaxis has received net cash proceeds from the issue of ordinary and convertible redeemable preference shares of $323.8 million.
- Additional funding has come through research grants, R&D tax incentive receipts, interest on investments and the exercise of employee options.
- In 2013 the Company accessed additional funding through a financing agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest will invest up to US$40 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the European Union and the United States. As at 30 June 2013, the Company had accessed the minimum initial investment of US$20 million.
- Since the commercial launch of Aridol and Bronchitol for cystic fibrosis, operations have also generated sales revenue of $7.6 million.

As at 30 June 2013 Pharmaxis had cash and cash equivalents of $63.9 million as compared to $81.5 million at 30 June 2012.

The components of the Company's cash flow during 2013 were as follows:

- Net cash outflows from operating activities of $35.4 million. This consisted of a net loss for the period of $43.5 million, which included $4.6 million of non-cash depreciation and amortisation, non-cash finance charges of $2.9 million, non-cash stock option expense of $1.4 million, and other negative working capital movements of $0.8 million.
- Net cash outflows from investing activities were $0.5 million, which was spent entirely on payments for plant and equipment and intangible assets.
- Net cash received by financing activities was $18.4 million related to cash inflows from the minimum investment by NovaQuest of A$19.4 million, $0.2 million from exercise of employee options offset by outflows on the facility finance lease.

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 14th August 2013. 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 2013

	Notes	**2013 $'000**	2012 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**3,237**	1,331
Cost of sales		**(1,141)**	(522)
Gross profit		**2,096**	809
Other revenue	2	**2,695**	3,049
Other income	3	**5,675**	3,874
Other expenses from ordinary activities	4		
Sales & marketing expenses		**(13,893)**	(11,073)
Safety, medical & regulatory expenses		**(5,581)**	(4,904)
Research & development expenses			
Bronchitol		**(18,531)**	(19,850)
New drug development		**(5,331)**	(4,519)
Administration expenses		**(6,030)**	(5,248)
Finance & royalty expenses		**(2,945)**	(856)
Restructure expenses		**(1,690)**	–
Loss before income tax		**(43,535)**	(38,718)
Income tax expense	5	**(2)**	74
Loss for the year		**(43,537)**	(38,644)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	30	**(14.1)**	(14.2)
Diluted earnings / (loss) per share	30	**(14.1)**	(14.2)

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 2013

	2013	2012
	$'000	$'000
Loss for the financial year	**(43,537)**	(38,644)
Other comprehensive income		
Exchange differences on translation of foreign operations	**24**	(32)
Other comprehensive income for the year, net of tax	**24**	(32)
Total comprehensive income for the year	**(43,513)**	(38,676)
Total comprehensive income for the year is attributable to:		
Owners of Pharmaxis Ltd	**(43,513)**	(38,676)

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

Consolidated balance sheet

As at 30 June 2013

	Notes	2013 $'000	2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**63,943**	81,475
Trade and other receivables	7	**5,823**	4,322
Inventories	8	**2,171**	1,477
Total current assets		**71,937**	87,274
Non-current assets			
Receivables	9	**2,799**	2,600
Property, plant and equipment	10	**25,115**	27,683
Intangible assets	11	**12,429**	14,143
Total non-current assets		**40,343**	44,426
Total assets		**112,280**	131,700
LIABILITIES			
Current liabilities			
Trade and other payables	12	**6,116**	5,727
Borrowings	13	**594**	515
Other liabilities	14	**239**	239
Provisions	15	**1,618**	263
Current tax liabilities		**46**	35
Total current liabilities		**8,613**	6,779
Non-current liabilities			
Borrowings	16	**11,560**	12,145
Other liabilities	17	**23,829**	2,571
Provisions	18	**383**	402
Total non-current liabilities		**35,772**	15,118
Total liabilities		**44,385**	21,897
Net assets		**67,895**	109,803
EQUITY			
Contributed equity	19	**344,623**	344,388
Reserves	20(a)	**15,725**	14,331
Accumulated losses	20(b)	**(292,453)**	(248,916)
Total equity		**67,895**	109,803

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 2013

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
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**
Loss for the year		–	–	(43,537)	(43,537)
Other comprehensive income		–	24	–	24
Total comprehensive income for the year		**–**	**24**	**(43,537)**	**(43,513)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	235	–	–	235
Employee share options	20(a)	–	1,370	–	1,370
		235	**1,370**	**–**	**1,605**
Balance at 30 June 2013		**344,623**	**15,725**	**(292,453)**	**67,895**

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 2013

	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**3,776**	1,615
Payments to suppliers and employees (inclusive of goods and services tax)		**(46,500)**	(43,126)
		(42,724)	(41,511)
Grant receipts from government		**4,637**	171
Interest received		**2,695**	3,049
Income tax refund		**9**	149
Net cash outflow from operating activities	29	**(35,383)**	(38,142)
Cash flows from investing activities			
Payments for property, plant and equipment		**(396)**	(204)
Proceeds from disposal of plant and equipment		**1**	110
Payments for intangible assets		**(134)**	(75)
Net cash outflow from investing activities		**(529)**	(169)
Cash flows from financing activities			
Net proceeds from issues of shares		**235**	76,693
Proceeds from financing agreement		**19,453**	–
Finance lease payments		**(1,320)**	(1,267)
Net cash inflow from financing activities		**18,368**	75,426
Net (decrease) / increase in cash and cash equivalents		**(17,544)**	37,115
Cash and cash equivalents at the beginning of the financial year		**81,475**	44,343
Effects of exchange rate changes on cash and cash equivalents		**12**	17
Cash and cash equivalents at the end of the financial year	6	**63,943**	81,475

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

Notes to the financial statements

30 June 2013

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, Interpretations issued by the Australian Accounting Standards Board, and the *Corporations Act 2001*. Pharmaxis Ltd is a for profit entity for the purposes of preparing the financial statements.

Compliance with IFRS
The consolidated financial statements of Pharmaxis Ltd also comply 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. 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) Finance liabilities – The group has recognised a financial liability in relation to an agreement with NovaQuest Pharma Opportunities Fund III, LP in accordance with the accounting policy stated in note 1 r (ii). The finance cost recognised in the income statement related to this financial liability has been calculated by taking into account sales forecasts in territories covered by the agreement, timing of launch into these territories and applicable exchange rates. Significant judgement has been applied in deriving these assumptions. Where the outcomes of these assumptions are different from the amounts that were initially recorded, such differences will impact the financial liabilities and finance costs in the period in which such determination is made.

(ii) 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 2013 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 one half 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 de consolidated 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. All other foreign exchange gains and losses are presented in the income statement on a net basis within other expenses.

(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 applicable rebates, 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 non-current liabilities as deferred income and are credited to the income statement on a straight line 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 $297 million at 30 June 2013 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 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 – 90 days from date of invoice. They are presented as current assets unless collection is not expected for more than twelve months after the reporting date.

Collectability 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 straight line 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. Trade and other payables are presented as current liabilities unless payment is not due within twelve months from the reporting date.

(q) Employee benefits

(i) Short-term obligations

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-term obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the 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 end of the reporting period. Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(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

(i) Deferred lease incentive

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

(ii) Financing agreement

The company recognised a financial liability which may be contingent in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the group and its counter party.

The group does not have an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) as it does not control the final outcome. A transfer of economic benefits as a result of a past event (the issue of the financial liability) cannot be avoided depending on the outcome of the future event.

The financial liability is initially recognised at fair value of the estimated cash flows that are expected to occur over the expected life of the liability, net of transaction costs incurred. The financial liability is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss, in finance costs, over the period of the financial liability using the effective interest method. When the estimated cash flows are revised, the carrying amount of the liability is recalculated by computing the present value of the revised estimated future cash flows at the original effective interest rate.

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

(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.

1. Summary of significant accounting policies (continued)

(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. Investments in subsidiaries are accounted for at cost in the financial statements of Pharmaxis Ltd. Dividends received are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 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, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition guidance and other Amendments (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 and parent entity 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 will adopt the new standards from their operative date. They will therefore be 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 will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2014.

Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The group does not have termination benefits which include feature of future service obligation. Pharmaxis Ltd does not have any defined benefit obligations, the amendments will not have any impact on the group's financial statements. The Group will adopt the new standard when it becomes operative, being from 1 July 2013.

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.

AASB 2012-3 Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Revenue

	2013 $'000	2012 $'000
Sales revenue		
Sale of goods	**3,237**	1,331
Other revenue		
Interest	**2,695**	3,049

3 Other income

	2013 $'000	2012 $'000
R&D Tax Incentive income	**5,392**	3,739
Other	**283**	135
	5,675	3,874

Other income includes an accrual for R&D tax incentive credits earned by the Group on eligible R&D activities during the year and an adjustment which increases the R&D tax incentive credits received by the company for the year ended 30 June 2012. Within Australia, the 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 2013 financial year.

4 Expenses

	2013 $'000	2012 $'000
Loss before income tax includes the following specific expenses:		
Depreciation (note 10)		
Plant and equipment	**1,232**	1,268
Computer equipment	**225**	251
Leased building and improvements	**1,515**	1,517
Total depreciation	**2,972**	3,036
Amortisation (note 11)		
Patents	**1,764**	1,757
Trademarks	**6**	6
Software	**78**	105
Total amortisation	**1,848**	1,868
Impairment losses – financial assets		
Trade receivables	**(60)**	(39)
Net loss / (gain) on disposal of plant and equipment	**3**	(57)
Rental expense relating to operating leases	**1,129**	1,265
Net foreign exchange (gains) / losses	**(171)**	89
Employee salaries and benefits expense		
Defined contribution superannuation	**1,068**	996
Share-based payment expenses	**1,370**	956
Contractor benefits expenses	**4,642**	2,682
Other employee benefits expenses	**16,689**	14,979

5 Income tax expense

	2013	2012
	$'000	$'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	**(43,535)**	(38,718)
Tax at the Australian tax rate 30% (2012:30%)	**(13,061)**	(11,615)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**411**	287
Government research tax incentives	**1,592**	1,357
Sundry items	**229**	227
	(10,829)	(9,744)
Over provision in prior years	**306**	84
Difference in overseas tax rates	**(61)**	(13)
Total	**(10,584)**	(9,673)
Deferred tax benefits not recognised	**10,586**	9,599
Income tax expense / (benefit)	**2**	(74)
This represents current income tax expense / (benefit).		
(b) Deferred tax balances		
Deferred tax asset comprises temporary differences attributable to the following:		
Interest and Grant receivables	**(86)**	(167)
Lease balances	**622**	496
Deferred lease incentive	**772**	843
Employee benefits	**584**	654
Restructuring provision	**416**	–
Finance charges	**613**	–
Share capital raising costs	**738**	1,165
Other	**145**	74
	3,804	3,065
Deferred tax assets attributable to temporary differences which are not recognised	**(3,804)**	(3,065)
	–	–
(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	**297,273**	263,722
Potential tax benefit at 30%	**89,182**	79,117

All unused tax losses were incurred by the parent entity.

6 Current assets – Cash and cash equivalents

	2013	2012
	$'000	$'000
Cash at bank and in hand	**768**	736
Deposits at call	**2,386**	2,673
Bank accepted commercial bills	**60,789**	78,066
	63,943	81,475

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

	2013	2012
	$'000	$'000
Trade receivables	**579**	359
Provision for impairment of receivables (note (b))	**–**	(72)
	579	287
R&D Tax Incentive receivable	**4,572**	3,767
Prepayments (note (c))	**53**	70
Tax related receivables	**619**	198
	5,823	4,322

(a) Past due but not impaired

As of 30 June 2013, trade receivables of $72,258 (2012: $162,473) 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:

	2013	2012
	$'000	$'000
Up to 1 month	**64**	75
1 to 2 months	**3**	10
Over 2 months	**5**	77
	72	162

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 2013, trade receivables of $Nil (2012: $71,739) were impaired.

(c) Prepayments

Prepayments relate to insurance premiums and operating lease rent 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

	2013	2012
	$'000	$'000
Raw materials – at cost	**610**	472
Work-in-progress – at cost	**360**	628
Finished goods – at cost	**1,201**	377
	2,171	1,477

9 Non-current assets – Receivables

	2013	2012
	$'000	$'000
Other receivables (note (a))	**2,799**	2,600

(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 – Property, plant and equipment

	Plant and equipment $'000	Computer equipment $'000	Leased building & improvements $'000	Total $'000
At 1 July 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
Year ended 30 June 2013				
Opening net book amount	9,354	382	17,947	27,683
Exchange differences	6	5	–	11
Additions	232	160	4	396
Disposals	–	(3)	–	(3)
Depreciation charge	(1,232)	(225)	(1,515)	(2,972)
Closing net book amount	8,360	319	16,436	25,115
At 30 June 2013				
Cost	15,949	1,641	23,048	40,638
Accumulated depreciation and impairment	(7,589)	(1,322)	(6,612)	(15,523)
Net book amount	8,360	319	16,436	25,115

(a) Leased assets

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

	2013 $'000	2012 $'000
Cost	**13,916**	13,916
Accumulated amortisation	**(3,837)**	(2,909)
Net book amount	**10,079**	11,007

11 Non-current assets – Intangible assets

	Patents	Trademarks	Software	Total
	$'000	$'000	$'000	$'000
At 1 July 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
Year ended 30 June 2013				
Opening net book amount	13,948	83	112	14,143
Additions	64	–	70	134
Disposals	–	–	–	–
Amortisation charge	(1,764)	(6)	(78)	(1,848)
Closing net book amount	12,248	77	104	12,429
At 30 June 2013				
Cost	18,895	111	750	19,756
Accumulated amortisation and impairment	(6,647)	(34)	(646)	(7,327)
Net book amount	12,248	77	104	12,429

12 Current liabilities – Trade and other payables

	2013	2012
	$'000	$'000
Trade payables	**1,145**	922
Other payables (note (a))	**4,971**	4,805
	6,116	5,727

(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.

(b) Risk exposure

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

13 Current liabilities – Borrowings

	2013	2012
	$'000	$'000
Secured		
Lease liabilities (note 24)	**594**	515

(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.

14 Current liabilities – Other liabilities

	2013	2012
	$'000	$'000
Deferred lease incentive	**239**	239

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

15 Current liabilities – Provisions

	2013	2012
	$'000	$'000
Employee benefits – long service leave	**230**	263
Restructuring provision (a)	**1,388**	–
	1,618	263

(a) The Company has implemented a business review and cost saving program. The restructuring provision relates to committed obligations that the Company has announced and implemented related to employee redundancies and facility closures and consolidations. These obligations will be settled during the first half of 2014.

16 Non-current liabilities – Borrowings

	2013	2012
	$'000	$'000
Secured		
Lease liabilities (note 24)	**11,560**	12,145

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

	2013	2012
	$'000	$'000
Deferred lease incentive (a)	**2,333**	2,571
Financing agreement (b)	**21,496**	–
	23,829	2,571

(a) 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.

(b) On 30th January 2013, the company entered a financing agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest will invest up to US$40 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the European Union ('EU') and the United States ('US'). As consideration for its investment, NovaQuest will receive payments based upon the EU and US sales revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU and seven years from the launch of Bronchitol in the US. The payments are determined by reference to EU and US sales revenue bands and corresponding annual payment percentages which vary over the term of the agreement to reflect the expected growth in Bronchitol sales, and decrease in the event that the total investment is below the maximum US$40 million.

The balance represents the initial investment by NovaQuest of US$20 million plus accrued finance costs up to 30 June 2013 in accordance with accounting policy note 1(r)(ii).

18 Non-current liabilities – Provisions

	2013	2012
	$'000	$'000
Employee benefits – long service leave	**383**	402

19 Contributed equity

		Consolidated and Parent entity		Consolidated and Parent entity	
		2013	2012	**2013**	2012
	Notes	**Shares**	Shares	**$'000**	$'000
Share capital (a)					
Ordinary shares	(b),(c)				
Fully paid		**308,543,389**	307,630,989	**344,623**	344,388

Movements in ordinary share capital:

Details	Number of shares	Issue price	$'000
Opening balance as at 1 July 2011	228,290,309		267,610
Exercise of employee options	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
Exercise of employee options	835,000	$0.282(1)	235
Employee Share Plan	77,400		–
Closing Balance at 30 June 2013	308,543,389		344,623

(1) The issue price on exercise of employee options represents an 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

	2013	2012
	$'000	$'000
(a) Reserves		
Share-based payments reserve	**16,089**	14,719
Foreign currency translation reserve	**(364)**	(388)
	15,725	14,331
Share-based payments reserve		
Balance 1 July	**14,719**	13,848
Equity expense	**1,370**	871
Balance 30 June	**16,089**	14,719
Foreign currency translation reserve		
Balance 1 July	**(388)**	(356)
Currency translation differences arising during the year	**24**	(32)
Balance 30 June	**(364)**	(388)
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	**(248,916)**	(210,272)
Net loss for the year	**(43,537)**	(38,644)
Balance 30 June	**(292,453)**	(248,916)

(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

	2013 $	2012 $
Short-term employee benefits	**3,306,182**	2,821,611
Post-employment benefits	**218,001**	185,710
Long-term benefits	**57,327**	70,709
Share-based payments	**773,216**	603,679
	4,354,726	3,681,709

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. This is a combination of options issued under the closed Employee Option plan and Performance Rights plan as outlined in note 32.

2013 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						
MJ McComas	40,000	–	–	–	40,000	40,000
GJ Phillips[1]	1,195,000	–	–	(37,500)	1,157,500	967,500
AD Robertson[2]	1,050,000	200,000	–	(1,250,000)	–	–
J Villiger	200,000	–	–	–	200,000	200,000
W Delaat	200,000	–	–	–	200,000	200,000
R van den Broek	–	–	–	–	–	–
SHW Buckingham[3]	–	30,000	–	–	30,000	–
Other key management personnel of the Group						
B Charlton	950,000	775,000	–	(37,500)	1,687,500	722,500
JF Crapper	1,120,000	725,000	(180,000)	(37,500)	1,627,500	712,500
HG Fox	527,500	770,000	–	(37,500)	1,260,000	300,000
MC Gallacé[6]	47,000	380,000	–	–	427,000	7,000
WG Jarolimek[5]	159,000	520,000	–	–	679,000	–
IA McDonald[4]	910,000	–	–	(910,000)	–	–
DM McGarvey	1,420,000	800,000	(480,000)	(37,500)	1,702,500	712,500
G Velummylum[6]	110,000	525,000	–	(7,500)	627,500	22,500

(1) GJ Phillips was appointed as a director on 12th March 2013. The directors have resolved to grant 2,000,000 performance rights to him 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 2014.

(2) AD Robertson resigned as a director on 12th March 2013.

(3) SHW Buckingham was appointed a director on 25th July 2012.

(4) IA McDonald retired effective 31st July 2012.

(5) WG Jarolimek was appointed as key management personnel on 1st August 2012.

(6) MC Gallacé and G Velummylum were appointed as key management personnel on 25th March 2013.

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	2,010,000	–	(960,000)	–	1,050,000	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	1,100,000	150,000	(300,000)	–	950,000	722,500
JF Crapper	970,000	150,000	–	–	1,120,000	892,500
HG Fox	377,500	150,000	–	–	527,500	253,125
IA McDonald	910,000	–	–	–	910,000	832,500
DM McGarvey	1,750,000	150,000	(480,000)	–	1,420,000	1,192,500
GJ Phillips	1,045,000	150,000	–	–	1,195,000	967,500

(iii) 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).

2013 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				
MJ McComas	339,999	–	–	339,999
GJ Phillips[1]	90,000	–	(30,000)	60,000
AD Robertson	1,605,000	–	(1,605,000)	–
J Villiger	333,334	–	–	333,334
W Delaat	33,334	–	–	33,334
R van den Broek[2]	75,000	–	–	75,000
SHW Buckingham	–	–	–	–
Other key management personnel of the Group				
Ordinary shares				
B Charlton	215,046	–	(215,000)	46
JF Crapper	2,000	180,000	(180,000)	2,000
HG Fox	–	–	–	–
MC Gallacé	1,480	–	860	2,340
WG Jarolimek	2,000	–	–	2,000
IA McDonald	–	–	–	–
DM McGarvey	192,127	480,000	(260,000)	412,127
G Velummylum	1,480	–	860	2,340

(1) GJ Phillips sold 90,000 shares in late 2012 and acquired 60,000 shares following his appointed as Chief Executive Officer.

(2) Richard van den Broek is associated with HSMR Advisors (QP) L.P, HSMR Advisors (QP) L.P, held 1,130,000 shares as at 30 June 2013 (2012: 830,000).

21 Key management personnel disclosures (continued)

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	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

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2013.

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:

	2013	2012
	$	$
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	**239,429**	228,807
PricewaterhouseCoopers UK firm		
Audit of the financial report of Pharmaxis Pharmaceuticals Limited	**20,613**	16,843
Total remuneration for audit services	**260,042**	245,650
(b) Other assurance services		
PricewaterhouseCoopers Australian firm		
Control testing	**9,750**	9,750
Entitlement Rights Issue – Agreed upon procedures review	**–**	20,000
	9,750	29,750
PricewaterhouseCoopers China firm		
Accounting review services	**–**	2,443
Total remuneration for other services	**9,750**	32,193
(c) Tax services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	**31,790**	76,371
International tax consulting and tax advice	**16,500**	12,510
	48,290	88,881
Other PricewaterhouseCoopers firms		
Tax compliance services	**107,253**	101,471
Total remuneration for tax services	**155,543**	190,352

23 Contingent liabilities

The Group had contingent liabilities at 30 June 2013 in respect of:

Guarantees

The Group's bankers have issued bank guarantees of $1,070,435 (2012: $1,070,435) 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 (2012: $65,274).

The Group's bankers have issued a bank guarantee of GBP180,000 (2012: 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 (2012: 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 (2012: 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

(a) Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2013	2012
	$'000	$'000
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.

	2013	2012
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,114**	1,172
Later than one year but not later than five years	**2,927**	3,947
Later than 5 years	**4,093**	4,353
	8,134	9,472

(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%.

	2013	2012
	$'000	$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**1,365**	1,322
Later than one year but not later than five years	**5,918**	5,732
Later than five years	**10,105**	11,656
Minimum lease payments	**17,388**	18,710
Future finance charges	**(5,234)**	(6,050)
Total lease liabilities	**12,154**	12,660
Current (note 13)	**594**	515
Non-current (note 16)	**11,560**	12,145
	12,154	12,660

(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	
	2013	2012	**2013**	2012
	$	$	**$**	$
Marketing, drug discovery, clinical, regulatory and administration services expenditure paid to subsidiaries	**–**	–	**7,468,330**	7,311,490

(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	
	2013	2012	**2013**	2012
	$	$	**$**	$
Current receivables				
Subsidiaries	**–**	–	**644,440**	–
Current payables				
Subsidiaries	**–**	–	**810,581**	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	
			2013	2012
			%	%
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 2013 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

	2013	2012
	$'000	$'000
Loss for the year	**(43,537)**	(38,644)
Depreciation of property, plant & equipment	**2,972**	3,036
Amortisation of intangibles	**1,848**	1,868
Amortisation of lease incentive	**(238)**	(239)
Impairment losses – financial assets		
Trade receivables	**(72)**	(39)
Finance charges	**2,857**	768
Non-cash employee benefits expense – share-based payments	**1,370**	956
Net loss / (gain) on disposal of non-current assets	**3**	(57)
Change in operating assets and liabilities		
(Increase) / decrease in trade receivables	**(220)**	40
(Increase) in inventories	**(694)**	(613)
(Increase) in other operating assets	**(1,408)**	(4,082)
Increase / (decrease) in trade payables	**223**	(313)
Increase / (decrease) in other operating liabilities	**177**	(752)
Increase / (decrease) in other provisions	**1,336**	(71)
Net cash outflow from operating activities	**(35,383)**	(38,142)

30 Earnings per share

	2013 Cents	2012 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	**(14.1)**	(14.2)
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	**(14.1)**	(14.2)
(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	**308,291,289**	271,964,415

(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:

	2013 $'000	2012 $'000
Financial assets		
Cash and cash equivalents	**63,943**	81,475
Trade and other receivables	**5,823**	4,322
Receivables	**2,799**	2,600
	72,565	88,397
Financial liabilities		
Trade and other payables	**6,116**	5,727
Borrowings	**12,154**	12,660
Other liabilities	**24,068**	2,810
	42,338	21,197

31 Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

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

	30 June 2013			30 June 2012		
	USD	**GBP**	**EUR**	USD	GBP	EUR
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**9**	**149**	**451**	113	104	23
Trade receivables	**–**	**53**	**240**	–	–	115
Other receivables	**195**	**570**	**1,126**	174	495	651
Trade payables	**112**	**117**	**451**	108	17	227
Other payables	**504**	**356**	**1,141**	325	369	910
Other liabilities	**21,496**	**–**	**–**	–	–	–

Group sensitivity

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 5% against the USD with all other variables held constant, the Group's post-tax loss for the year would have been $1,153,000 higher/$1,043,000 lower (2012 EUR: $39,000 higher/$32,000 lower), mainly as a result of foreign exchange gains/losses on translation of USD 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 2013		30 June 2012	
	Weighted average interest rate	**Balance**	Weighted average interest rate	Balance
	%	**$'000**	%	$'000
Cash and cash equivalents	**0.66%**	**3,154**	0.54%	3,409
Bank accepted commercial bills	**4.08%**	**60,789**	3.80%	78,066
Other receivables	**1.52%**	**2,799**	2.66%	2,600

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2013, 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 $512,000 lower/higher (2012 – change of 80 bps: $652,000 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:

	2013	2012
	$'000	$'000
Cash and cash equivalents		
A1+	**63,943**	81,475
Trade receivables		
Not rated	**579**	359
Other receivables		
AA-	**2,041**	1,942
Not rated	**758**	658
	2,799	2,600

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 2013						
Non-interest bearing	6,355	239	716	1,378	8,688	8,688
Fixed rate	594	679	2,624	8,257	12,154	12,154
Total non-derivatives	6,949	918	3,340	9,635	20,842	20,842
Group – at 30 June 2012						
Non-interest bearing	5,966	239	716	1,616	8,537	8,537
Fixed rate	515	594	2,323	9,228	12,660	12,660
Total non-derivatives	6,481	833	3,039	10,844	21,197	21,197

Included on the balance sheet is a financial liability related to a financing agreement of $21,496,000. This liability is accounted for in accordance with Accounting Policy note 1(r)(ii) and the term of the agreement and forecast repayment obligations are as detailed in Note 17(b).

(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.

	2013	2012
Number of options exercised during the year	**835,000**	2,880,000
Weighted average data:		
Share price at exercise date of options exercised during the year	**$1.21**	$1.05

There were 7,661,125 vested options at 30 June 2013 (8,490,063 at 30 June 2012). Set out below are summaries of options 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 – 2013								
12 May 2003	30 Nov 2012	$0.1725	480,000	–	480,000	–	–	–
1 July 2003	30 June 2013	$0.1725	180,000	–	180,000	–	–	–
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	–	175,000	–	50,000	50,000
12 May 2005	11 May 2015	$1.0070	290,000	–	–	–	290,000	290,000
5 Aug 2005	4 Aug 2015	$1.6500	660,000	–	–	10,000	650,000	650,000
17 Oct 2005	16 Oct 2015	$2.6320	30,000	–	–	–	30,000	30,000
13 Feb 2006	12 Feb 2016	$2.0540	35,000	–	–	10,000	25,000	25,000
1 June 2006	31 May 2016	$1.8940	37,500	–	–	–	37,500	37,500
15 Aug 2006	14 Aug 2016	$1.7770	557,250	–	–	11,500	545,750	545,750
26 Oct 2006	14 Aug 2016	$1.7770	170,000	–	–	–	170,000	170,000
20 Sept 2006	19 Sept 2016	$1.7518	20,000	–	–	–	20,000	20,000
14 Dec 2006	13 Dec 2016	$2.9310	25,000	–	–	–	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	1,457,000	–	–	6,500	1,450,500	1,450,500
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	490,000	–	–	–	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	8,000	–	–	–	8,000	8,000
11 Apr 2008	10 Apr 2018	$1.9735	4,000	–	–	–	4,000	4,000
23 June 2008	22 June 2018	$1.4590	1,500	–	–	–	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	1,138,000	–	–	41,000	1,097,000	1,097,000
23 Oct 2008	11 Aug 2018	$1.6770	200,000	–	–	–	200,000	200,000
23 Oct 2008	22 Oct 2018	$1.4660	60,000	–	–	–	60,000	60,000
11 Dec 2008	10 Dec 2018	$1.0207	20,000	–	–	15,000	5,000	5,000
5 Feb 2009	4 Feb 2019	$1.1980	207,500	–	–	–	207,500	207,500
23 Apr 2009	22 Apr 2019	$1.8174	3,750	–	–	–	3,750	3,750
23 Jun 2009	22 Jun 2019	$2.4098	1,458,500	–	–	317,375	1,141,125	1,141,125
21 Oct 2009	22 Jun 2019	$2.4098	200,000	–	–	–	200,000	200,000
Total			8,907,500	–	835,000	411,375	7,661,125	7,661,125
Average exercise price			$2.085	$ –	$0.282	$2.255	$2.272	$2.272

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								
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
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
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.

There were 411,375 options forfeited during 2013 (374,500 options during 2012). The weighted average remaining contractual life of share options outstanding at the end of the period was 4.16 years (2012 – 4.84 years).

Fair value of options granted
There were no options granted during the year ended 30 June 2013.

(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. The Board did not impose additional performance criteria at the point of vesting for the 2010 and 2012 grants in recognition of the initial grant reflecting assessed performance, the restrictions on resale discussed below, and the current stage of the Group's development. The performance rights issued in 2013 vest in three installments. Thirty percent on 31st January 2014 (no performance criteria), thirty five percent on 31st July 2014 and the remainder on 31st July 2015. The last two vesting dates are subject to achievement of performance criteria.
- 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.
  - for performance rights granted in 2013 shares issued upon exercise are not subject to any restriction, except as noted below for Senior Executive Officers.
  - 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 30,000 vested performance rights at 30 June 2013 (Nil 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 – 2013								
7 Sept 2010	6 Sept 2020	$ –	458,000	–	–	–	458,000	30,000
20 Oct 2010	6 Sept 2020	$ –	50,000	–	–	7,000	43,000	–
15 Nov 2010	14 Nov 2020	$ –	23,000	–	–	14,000	9,000	–
24 Jan 2011	23 Jan 2021	$ –	7,000	–	–	–	7,000	–
29 Jun 2012	28 Jun 2022	$ –	2,345,000	–	–	119,000	2,226,000	–
18 Oct 2012	28 Jun 2022	$ –	–	200,000	–	–	200,000	–
18 Oct 2012	17 Oct 2022	$ –	–	30,000	–	–	30,000	–
7 Jun 2013	6 Jun 2023	$ –	–	7,900,000	–	–	7,900,000	–
Total			2,883,000	8,130,000	–	140,000	10,873,000	30,000
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	–

There were 140,000 performance rights forfeited during 2013 (2012: 17,000).

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 9.6 (2012 – 9.7 years).

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2013 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 2013				Year ended 30 June 2012			
Grant date	No. of options granted	Exercise Price	Share Price	Grant date	No. of options granted	Exercise Price	Share Price
18 Oct 2012	200,000	$ –	$1.300	29 Jun 2012	2,345,000	$ –	$1.025
18 Oct 2012	30,000	$ –	$1.300				
7 Jun 2013	7,900,000	$ –	$0.145				
	8,130,000				2,345,000		

(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:

	2013	2012
Number of shares issued under the plan to participating employees	**77,400**	86,000

(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 2013. 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 – 2013								
24 Sept 2010	23 Sept 2020	$ –	6,240	–	–	2,400	3,840	–
30 Aug 2011	29 Aug 2021	$ –	25,000	–	–	9,000	16,000	–
10 Aug 2012	9 Aug 2022	$ –	–	24,080	–	6,880	17,200	–
Total			31,240	24,080	–	18,280	37,040	–
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	–

There were 18,280 International ZEPO's forfeited during 2013 (10,360 International ZEPO's during 2012).

The weighted average remaining contractual life of International ZEPO's outstanding at the end of the period was 8.51 years (2012 – 8.98 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 2013 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 2013				Year ended 30 June 2012			
Grant date	No. of options granted	Exercise Price	Share Price	Grant date	No. of options granted	Exercise Price	Share Price
10 Aug 2012	24,080	$ –	$1.125	30 Aug 2011	32,000	$ –	$0.991

(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:

	2013	2012
	$'000	$'000
Equity instruments issued under employee equity plans	**1,370**	956

33 Parent entity financial information

(a) Summary financial information

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

	2013	2012
	$'000	$'000
Balance sheet		
Current assets	**70,950**	86,593
Total assets	**119,789**	137,619
Current liabilities	**7,470**	5,836
Total liabilities	**43,242**	20,954
Shareholders' equity		
Issued capital	**344,623**	344,388
Share-based payments reserve	**16,089**	14,719
Retained earnings	**(284,165)**	(242,442)
	76,547	116,665
Loss for the year	**(41,723)**	(37,013)
Total comprehensive income	**(41,723)**	(37,013)

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

As at 30 June 2013, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $Nil (30 June 2012 – $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 41 to 82 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

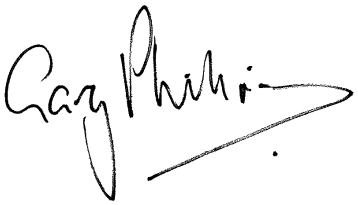
  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

(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.



Gary J Phillips
Director

Sydney
14th August 2013

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 balance sheet as at 30 June 2013, and the income statement, the statement of comprehensive income, statement of changes in equity and 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.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

pwc

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 2013 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 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Pharmaxis Ltd (the company) for the year ended 30 June 2013 included on Pharmaxis Ltd web site. The company's directors are responsible for the integrity of the Pharmaxis Ltd web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
14 August 2013

7 Shareholder Information

The shareholder information set out below was applicable as at 17 September 2013.

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	1,341	143	–	–	6
1,001 – 5,000	2,400	–	10	–	15
5,001 – 10,000	1,219	–	10	–	–
10,001 – 100,000	2,267	1	25	26	–
100,001 and over	319	–	14	22	–
	7,546	144	59	48	21

There were 3,014 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	63,528,127	20.59
National Nominees Limited	30,361,112	9.84
HSBC Custody Nominees (Australia) Limited	21,646,787	7.02
J P Morgan Nominees Australia Limited	12,808,901	4.15
Asset Selection Advisors Pty Limited	3,500,000	1.13
Phillip Asset Management Ltd	3,377,319	1.09
Bentale Pty Ltd	1,710,667	0.55
Dr Mark Edwin Badcock	1,600,000	0.52
Valueinvest Pty Ltd	1,500,000	0.49
Mr David Robert Newnham & Ms Merryl Barbara Kate (D R N Super Fund No 2 A/C)	1,405,056	0.46
Mr David Robert Newnham & Ms Merryl Barbara Kate (D R N Superfund No 1 A/C)	1,091,979	0.35
Capital Regional et Cooperatif Desjardins	1,053,867	0.34
Mr Jeffrey Edward Gilbert & Mrs Evelyn Gilbert	1,000,000	0.32
Mr Trevor Loewensohn & Mrs Susan Fay Loewensohn	1,000,000	0.32
Merrill Lynch (Australia) Nominees Pty Limited	981,182	0.32
JP Morgan Nominees Australia Limited (Cash Income A/C)	973,698	0.32
Hepton Investment Pty Ltd	900,000	0.29
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	896,810	0.29
Garsind Pty Ltd	805,000	0.26
Nighbeach Pty Ltd	800,000	0.26

Unquoted equity securities

	Number Held	Number of Holders
Options issued under the Pharmaxis Ltd Employee Option Plan	7,542,625	59
Performance rights issued	10,838,000	48
Performance options issued	37,040	21

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Orbis Global Equity Fund Limited	59,735,407	19.4%
Montoya Investments Limited	19,123,830	6.2%
Australian Ethical Smaller Companies Trust	18,797,742	6.1%

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
Gary Phillips – 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
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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

Pharmaxis Ltd

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