



**PHARMAXIS LTD
2006 Annual General Meeting
Chairman's Address**

In 2002 your company first started working on the lung function test we now know as Aridol after concluding a licensing agreement with the Sydney South West Area Health Service. Since then we have set up our TGA registered manufacturing facility, manufactured product for clinical trial use, undertaken extensive safety studies, completed a 650 patient clinical trial involving 13 hospitals throughout Australia, reported and published the findings of the trial and filed marketing applications in Australia and Europe. In March of this year, a busy four and a half years later, we received approval to sell Aridol in Australia – a defining moment in the evolution of our company. Our first Aridol sale was booked in June.

On the international front we established Pharmaxis UK Limited, a European Pharmaxis presence to manage our commercial operations in Europe and the increasing number of international clinical trials. We have so far appointed four marketing/distribution partners in Europe with more to come. Yesterday's announcement of Swedish approval will allow us to shortly book our first European sale of Aridol.

Aridol has demonstrated the capability of your management team to negotiate the very complex path to the approval of a new therapeutic agent.

Coming up very fast behind Aridol, is Bronchitol, a product with an even brighter future. Bronchitol addresses a number of patient populations totaling over 31 million people and operates in a very favourable competitive climate. The first of the pivotal phase 3 registration trials for Bronchitol has begun and I recommend to shareholders that they take note of the progress of those trials as they each represent uses for Bronchitol which I expect would surpass the market potential of Aridol.

To complement our Australian listing your company listed on the U.S. Nasdaq exchange in August 2005, and then proceeded with an A\$87 million capital raising simultaneously completed in both Australia and the U.S. Access to, and recognition by, the large US capital markets are an important component of building an international pharmaceutical business. Significantly, as a result of this transaction Pharmaxis has sufficient funds to complete the clinical programs and international commercial launch of Aridol, Bronchitol for cystic fibrosis and Bronchitol for bronchiectasis.

Your Board of Directors has also commenced a process of transformation during the year. It now comprises a majority of independent directors. Following the appointment of Dr Peter Farrell, Dr Carrie Hillyard and Dr Brett Charlton stepped down from the Board and Ms Brigitte Smith retires at the conclusion of today's meeting. Brett was a founding director and continues as a full time executive of the company, overseeing our extensive clinical program. Carrie originally joined the board in 2002 as representative of a venture capital fund shareholder of which she is a partner. Brigitte joined the Board in 1999 when the venture capital fund of which

she is a partner, made the seed investment in Pharmaxis. Both Carrie and Brigitte's funds helped with subsequent fund raisings, particularly their investment in our initial public offering in 2003. On your behalf I thank Brigitte, Brett and Carrie for their contribution to the company and the board over these crucial formative years of the company.

2006 has been a year of significant achievement and transformation for our company. We have a team of excellent people with a track record of delivery. We have products that change people's lives. We have the financial resource to progress our work.

I remain personally confident that our company will continue to achieve its milestones and so help many patients whose quality of life is not what it might be. At the same time I am also confident that this good work will deliver appreciating value to you our investors and enable Pharmaxis to become a truly significant pharmaceutical business.

Your Chief Executive Officer and Managing Director, Dr Alan Robertson in his presentation will be providing a brief review of where we find ourselves at this point in time and some insight into the scope of the opportunity in front of us.

Your CFO, Mr. David McGarvey will give an overview of the company's financial position.

On your behalf, I want to thank your Board for their oversight and strategic direction of our company. Also on your behalf, I would also like to thank your management and staff for delivering the success we are enjoying.

Denis M Hanley
Chairman
26 October 2006