



Pharmaxis Ltd

ABN 75 082 811 630

ASX Preliminary Final Report – 30 June 2013

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with the Statutory Annual Report dated 9th August 2012 and any public announcements made by during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Year ended 30th June 2013

(Previous corresponding period: Year ended 30th June 2012)

Results for announcement to the market

			<u>A\$'000</u>
Revenue from ordinary activities	Up	41% to	11,607
Profit / (Loss) from ordinary activities after tax	Up	13% to	(43,537)
Net profit / (loss) for the year attributable to members	Up	13% to	(43,537)

Dividends

It is not proposed to pay a dividend

Other Appendix 4E information

	<u>30 June</u> <u>2013</u>	<u>30 June</u> <u>2012</u>
Net tangible assets per ordinary share	\$ 0.18	\$ 0.31

Commentary on results for the period (Appendix 4E item 14)

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.

- 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	2012
<i>In thousands</i>	A\$	A\$
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 in Europe 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.

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, 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 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.

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.

Status of audit (Appendix 4E items 15 to 17)

This Appendix 4E has not been audited but is based upon financial statements which have been audited. The financial statements, together with the audit report, which is unqualified, will be made available with the Pharmaxis 2013 Annual Report, which has not been finalised.

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Annual financial report - 30 June 2013****Contents**

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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.

Pharmaxis Ltd
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:			
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.

Pharmaxis Ltd

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.

Pharmaxis Ltd
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.

Pharmaxis Ltd

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.

Pharmaxis Ltd
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.

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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.

(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.

1. Summary of significant accounting policies (continued)

(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.

1. Summary of significant accounting policies (continued)

(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.

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.

1. Summary of significant accounting policies (continued)

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.

1. Summary of significant accounting policies (continued)

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.

(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.

1. Summary of significant accounting policies (continued)

(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.

1. Summary of significant accounting policies (continued)

(s) Contributed equity

Ordinary shares are classified as equity.

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

(t) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(u) Goods and Services Tax (GST)

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

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

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

(v) Rounding of amounts

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

(w) Parent entity financial information

The financial information for the parent entity, Pharmaxis Ltd, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements. 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 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures, 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.

1. Summary of significant accounting policies (continued)

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.

1. Summary of significant accounting policies (continued)

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	2012
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	3,237	1,331
<i>Other revenue</i>		
Interest	2,695	3,049

3. Other income

	2013	2012
	\$'000	\$'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	2012
	\$'000	\$'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
<i>Impairment losses – financial assets</i>		
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

Potential tax benefit @ 30%

297,273	263,722
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.

7. Current assets – Trade and other receivables (continued)

(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	Computer equipment	Leased building and improvements	Total
	\$'000	\$'000	\$'000	\$'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	2012
	\$'000	\$'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 \$'000	Trademarks \$'000	Software \$'000	Total \$'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 \$'000	2012 \$'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

17. Non-current liabilities – Other liabilities (continued)

- (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	
	Notes	2013	2012	2013	2012
(a) Share capital		Shares	Shares	\$'000	\$'000
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.

19. Contributed equity (continued)

(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)
	<u>15,725</u>	<u>14,331</u>
<i>Share-based payments reserve</i>		
Balance 1 July	14,719	13,848
Equity expense	1,370	871
Balance 30 June	<u>16,089</u>	<u>14,719</u>
<i>Foreign currency translation reserve</i>		
Balance 1 July	(388)	(356)
Currency translation differences arising during the year	24	(32)
Balance 30 June	<u>(364)</u>	<u>(388)</u>

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2013	2012
	\$'000	\$'000
Balance 1 July	(248,916)	(210,272)
Net loss for the year	(43,537)	(38,644)
Balance 30 June	<u>(292,453)</u>	<u>(248,916)</u>

(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 Velumylym ⁽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 Velumylym were appointed as key management personnel on 25th March 2013.

21. Key management personnel disclosures (continued)

2012	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	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 Velumylyum	1,480	-	860	2,340

21. Key management personnel disclosures (continued)

- (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).

2012	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
Name				
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

22. Remuneration of auditors (continued)

	2013	2012
(b) Other assurance services	\$	\$
PricewaterhouseCoopers Australian firm		
Control testing	9,750	9,750
Entitlement Rights Issue – Agreed upon procedures review	-	20,000
	<u>9,750</u>	<u>29,750</u>
PricewaterhouseCoopers China firm		
Accounting review services	-	2,443
	<u>9,750</u>	<u>32,193</u>
(c) Tax services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	31,790	76,371
International tax consulting and tax advice	16,500	12,510
	<u>48,290</u>	<u>88,881</u>
Other PricewaterhouseCoopers firms		
Tax compliance services	107,253	101,471
	<u>155,543</u>	<u>190,352</u>

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
<i>Plant and equipment</i>		
Payable: Within one year	-	-

24. Commitments (continued)

(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
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
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
<i>Commitments in relation to finance leases are payable as follows:</i>		
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
	\$	\$	\$	\$
<i>Current receivables</i>				
Subsidiaries	-	-	644,440	-
<i>Current payables</i>				
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	2012
	Cents	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

30. Earnings per share (continued)

(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	2012
	\$'000	\$'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

(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 \$'000	GBP \$'000	EUR \$'000	USD \$'000	GBP \$'000	EUR \$'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.

31. Financial risk management (continued)

(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 \$'000	Weighted average interest rate %	Balance \$'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 analyses 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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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.

32. Share-based payments (continued)

	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)

	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
	17 Oct 2005	16 Oct 2015	\$2.6320	30,000	-	-	-	30,000
	13 Feb 2006	12 Feb 2016	\$2.0540	35,000	-	-	-	35,000
	1 June 2006	31 May 2016	\$1.8940	87,500	-	-	50,000	37,500
	15 Aug 2006	14 Aug 2016	\$1.7770	559,750	-	-	2,500	557,250
	26 Oct 2006	14 Aug 2016	\$1.7770	210,000	-	-	40,000	170,000
	20 Sept 2006	19 Sept 2016	\$1.7518	25,000	-	-	5,000	20,000
	14 Dec 2006	13 Dec 2016	\$2.9310	32,500	-	-	7,500	25,000
	18 Jun 2007	17 Jun 2017	\$3.1755	132,500	-	-	-	132,500
	10 Aug 2007	9 Aug 2017	\$3.2490	1,461,500	-	-	4,500	1,457,000
	5 Nov 2007	9 Aug 2017	\$3.2490	150,000	-	-	-	150,000
	5 Nov 2007	14 Nov 2016	\$3.0858	200,000	-	-	-	200,000
	6 Nov 2007	5 Nov 2017	\$4.1500	495,000	-	-	5,000	490,000
	14 Dec 2007	13 Dec 2017	\$3.9973	2,000	-	-	-	2,000
	8 Feb 2008	7 Feb 2018	\$3.1266	11,000	-	-	3,000	8,000
	11 Apr 2008	10 Apr 2018	\$1.9735	14,000	-	-	10,000	4,000
	23 June 2008	22 June 2018	\$1.4590	53,500	-	-	52,000	1,500
	23 Oct 2008	22 June 2018	\$1.4590	200,000	-	-	-	200,000
	12 Aug 2008	11 Aug 2018	\$1.6770	1,200,500	-	-	62,500	1,138,000
	23 Oct 2008	11 Aug 2018	\$1.6770	200,000	-	-	-	200,000
	23 Oct 2008	22 Oct 2018	\$1.4660	92,500	-	-	32,500	60,000
	11 Dec 2008	10 Dec 2018	\$1.0207	35,000	-	-	15,000	20,000
	5 Feb 2009	4 Feb 2019	\$1.1980	208,500	-	-	1,000	207,500
	23 Apr 2009	22 Apr 2019	\$1.8174	3,750	-	-	-	3,750
	23 Jun 2009	22 Jun 2019	\$2.4098	1,502,500	-	-	44,000	1,458,500
	21 Oct 2009	22 Jun 2019	\$2.4098	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).

32. Share-based payments (continued)

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:

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	-

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
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				
	<u>8,130,000</u>				<u>2,345,000</u>		

(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			<u>31,240</u>	<u>24,080</u>	-	<u>18,280</u>	<u>37,040</u>	-
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			<u>9,600</u>	<u>32,000</u>	-	<u>10,360</u>	<u>31,240</u>	-

32. Share-based payments (continued)

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
<i>Shareholders' equity</i>		
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.