



pharmaxis

STATUTORY  
ANNUAL REPORT  
2016

## **IMPORTANT INFORMATION**

This Statutory Annual Report will be lodged with the Australian Securities Exchange and the Australian Securities and Investments Commission and is available from the Pharmaxis website [www.pharmaxis.com.au](http://www.pharmaxis.com.au).

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

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

### **Forward Looking Statements**

This Statutory Annual Report contains statements that constitute forward-looking statements. Forward-looking statements appear in a number of places in this Statutory Annual Report. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”,

“should”, “expects”, “plans”, “anticipates,” “believes”, “estimates”, “predicts”, “potential”, or “continue”, or the negative of these terms or other comparable terminology. These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements.

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

### **Currency of Presentation**

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

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## 1. DIRECTORS' REPORT

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2016.

### 1.1 Information on Directors

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

*Malcolm J. McComas* (age 61) has been a member of the Board of Directors since July 2003 and was appointed Chairman of the Board on 1 May 2012. Malcolm McComas is a company director and a former investment banker and commercial lawyer. Mr McComas is the principal of McComas Capital and was previously a consultant and a director of Grant Samuel, the investment banking and funds management group, from 1999 to 2009. Mr McComas previously served for 10 years as Managing Director of Investment Banking at County NatWest and its successor organization Salomon Smith Barney (now Citigroup) and in various executive roles with Morgan Grenfell (now Deutsche Bank) in Melbourne, Sydney and London.

Mr McComas has worked with many high growth companies across various industry sectors and has experience in equity and debt finance, acquisitions and divestments and privatisations. Mr McComas has led more than 50 initial public offerings and significant secondary offerings for companies, institutions and governments. Mr McComas is a director of Saunders International Limited, Royalco Resources Limited, Australasian Leukaemia and Lymphoma Group, Chairman of Fitzroy River Corporation Limited and a former director of BC Iron Limited and Consolidated Minerals Limited. Mr McComas has been chairman of the Remuneration and Nomination Committee since 1 May 2012, is a member of the Audit Committee and was chairman of the Audit Committee until 1 May 2012.

*Gary J. Phillips* (aged 55) was appointed Chief Executive Officer and became a member of the Board of Directors on 12<sup>th</sup> March 2013. Prior to this he was the Chief Operating Officer since June 2008, having previously served as Commercial Director from his joining the Company in December 2003. Mr. Phillips has more than 30 years of operational management experience in the pharmaceutical and healthcare industry in Europe, Asia and Australia. From 1994 to 1998, he was Chief Executive Officer at Ciba Geigy in Hungary (Merged to form Novartis in 1996) where he led the successful launch of a portfolio of new products. After a period of 3 years as an Area Manager for Novartis responsible for 9 countries in Asia Pacific in 2001 he joined Novartis Australia as Group Company Head and Chief Executive Officer of its Pharmaceutical Division, successfully launching leading oncology and ophthalmology products. Mr Phillips holds a B. Pharm. in Pharmacy with honors from Nottingham University in the UK and an MBA from Henley Management College.

*William L. Delaat AM* (age 65) has been a member of the Board of Directors since June 2008. Mr Delaat has over 40 years' experience in the global pharmaceutical industry, most recently as the managing director of the Australian subsidiary of Merck & Co., a position he held from 1997 until his retirement in 2008. During his career Mr Delaat has held executive positions in both Europe and Australia for Merck and AstraZeneca. Mr Delaat is experienced in sales and marketing and has been responsible for international product launches and commercialisation of respiratory products. Mr Delaat was chairman of Medicines Australia, and the Pharmaceuticals Industry Council from 2008 to 2012. He is also the former Chairman of EnGeneC Ltd, an unlisted Australian biotech company, and a member of other Government appointed Councils and Not-for-Profit Boards. Mr Delaat holds a Bachelor of Science, Physiology & Chemistry from the University of London and is a Graduate of the Australian Institute of Company Directors. Mr Delaat is a member of the Audit Committee and has been its chairman since 1 May 2012.

*Simon H.W. Buckingham PhD, GAICD* (age 54) has been a member of the Board of Directors since 25 July 2012. Dr Buckingham has over 25 years' experience in the global pharmaceutical industry across a range of functions and a variety of therapeutic areas. Now based in Sydney, he is currently a Senior Global Advisor / Consultant to Actelion, one of the world's leading biopharmaceutical companies, and is a Director of Actelion Australia. Dr Buckingham was President, Global Corporate and Business Development at Actelion from 2005-2011, a position which spanned licensing, M&A, alliance management and corporate strategic planning. He served as President, North America and Asia-Pacific at Actelion from 2000-2005, with responsibility for all commercial operations in the region. He was the founding President of Actelion Pharmaceuticals US. From 1998-2000 he worked in sales and marketing for Parke-Davis (now part of Pfizer) in the US and prior to that served in roles in sales, marketing and development at Roche, both in Switzerland and Australia, for 9 years. Dr Buckingham is currently a non-executive director of Creso Pharma Ltd, specialising in cannabis derived pharmaceutical grade nutraceutical products for human and animal health; Vaxxilon AG, a European based start-up, founded by the Max Planck Society and Actelion, dedicated to the discovery, development and commercialisation of innovative synthetic carbohydrate vaccines; and the Can Too Foundation, a non-profit organisation raising funds for cancer research. He holds a Bachelor of Veterinary Science degree from the University of Sydney (1984), a PhD from the University of Melbourne (1988), a Graduate Management Qualification from the AGSM, University of NSW (1990) and is a Graduate of the Australian Institute of Company Directors. Dr Buckingham is a member of the Audit Committee and the Remuneration and Nomination Committee.

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

## 1.2 Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each Director was:

	Board Meetings		Meetings of committees			
			Audit		Remuneration & Nomination	
	A	B	A	B	A	B
MJ McComas	12	12	4	4	3	3
GJ Phillips	12	12	–	–	–	–
WL Delaat	12	11	4	4	3	3
SHW Buckingham	12	12	4	4	3	3

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

B = Number of meetings attended

## 1.3 Indemnification and Insurance of Directors

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

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

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

Directors' and officers' liability insurance is provided for the indemnification of Directors and officers against certain liabilities incurred as a director or officer, including costs and expenses associated in successfully defending legal proceedings. This insurance will be maintained in the future. During the financial year, a premium of \$60,261 was paid to insure the directors and officers of the Group for the policy year ended 26 September 2016. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. Policy exclusions include: liabilities that arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group; pollution that could reasonably be known to management; and, bodily injury and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## 1.4 Company Secretary

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

## 1.5 Principal Activities

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

## 1.6 Review and Results of Operations

A review of the operations of the Group for the financial year ended 30 June 2016 is set out in Section 5 of this Statutory Annual Report.

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

Refer to Section 2 of this Statutory Annual Report

## 1.8 Dividends

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

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

## 1.9 Significant Changes in the State of Affairs

Refer to Section 5 of this Statutory Annual Report.

### **1.10 Matters Subsequent to the End of the Financial Year**

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

### **1.11 Likely Developments and Expected Results of Operations**

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

### **1.12 Environmental Regulation**

The Group is subject to environmental regulation in respect of its manufacturing activities including the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and Waste Minimisation & Management Act 1995. Pharmaxis Ltd has been granted consent to discharge industrial trade wastewater from Sydney Water Corporation.

### **1.13 Rounding**

The Group is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### **1.14 Non-Audit Services**

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

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 21 to the Annual Financial Report included in Section 6 of this Statutory Annual Report.

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

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

### **1.15 Auditor's Independence Declaration**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is on the following page.



## Auditor's Independence Declaration

As lead auditor for the audit of Pharmaxis Ltd for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads 'Eddie Wilkie'.

Partner  
PricewaterhouseCoopers

Sydney  
18 August 2016

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Liability limited by a scheme approved under Professional Standards Legislation.

**1.16 Auditor**

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

**1.17 Resolution of the Board**

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

A handwritten signature in black ink, appearing to read "Gary Phillips", with a long horizontal stroke extending to the right.

**Gary J Phillips**

Director  
Sydney  
18 August 2016



## 2 REMUNERATION REPORT (Audited)

### Remuneration Report

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

- 2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers
- 2.2 Details of Remuneration Paid to Directors and Senior Executive Officers
- 2.3 Service Agreements with Senior Executive Officers
- 2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers
- 2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers
- 2.6 Equity Remuneration.

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

#### **Introduction:**

Pharmaxis requires a board and senior management team with technical capability and relevant international experience. Competitive remuneration practices are required to attract, retain and incentivise such executives and directors. To assist its deliberations, the Directors make use of surveys of Australian companies in the life science area and advice of recruiters and consultants who provide their analysis and understanding of the broader Australian healthcare and general listed company markets.

In reviewing comparative data concerning remuneration the Directors note that:

- The Pharmaxis business encompasses approved respiratory products manufactured by the Company and sold on global markets by partners and distributors, as well as drug discovery and development activities.
- In order to obtain the experience required, it has historically been necessary to recruit both directors and management from the international marketplace.

Senior Executive Officer remuneration includes a mix of short and long-term components. Remuneration of the Executive Director and Senior Executive Officers includes a meaningful proportion that varies with Group and individual performance. Variable cash incentives are subject to performance assessment by the Remuneration and Nomination Committee. Performance targets in the main relate to objectives and milestones assigned to individual executives from the Group's annual business plan. The business plan is designed to build a business that generates sustainable earnings, in turn generating long term shareholder value through share price appreciation and distributions to shareholders. Individual and Group performance targets are agreed by the Remuneration and Nomination Committee and the full Board each year. The annual performance of Senior Executive Officers is reviewed by the Remuneration and Nomination Committee each year.

Non-Executive Directors do not have a variable component of their remuneration.

#### **Equity Remuneration:**

Equity remuneration has been an important component of attracting and retaining talented individuals while staying within the fiscal constraints of a developing company.

#### Equity Remuneration Granted to Non-executive Directors

Non-executive directors do not receive equity remuneration. Until 30 June 2013 Non-Executive Directors were granted equity in the Group on becoming a director, with the form of equity varying.

#### Equity Remuneration Granted to Senior Executive Officers

In 2010 the Board established two equity remuneration plans to provide for the long term reward, incentive and retention of all employees in the Group:

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

Performance rights plans and share plans are both widely accepted in the Australian context to provide equity remuneration to management and employees of listed companies. Performance rights plans typically provide lower potential returns when compared to traditional options, but by also reducing the risk for employees they provide a stable equity remuneration instrument to reward and retain employees over the longer term. Performance rights have been granted in the 2010, 2013, 2016 and 2017 financial years.

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

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position and responsibility, the employee's performance, the employee's salary, and the Pharmaxis share price.

- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The Board has adopted different vesting terms and conditions to suit the business conditions in the year of grant. The performance rights lapse in the event the employee ceases to be an employee before the vesting date.
  - In 2010 the Board set the vesting term as the third anniversary of the grant date.
  - For subsequent grants of performance rights, other than 2013 the Board determined to vest half the performance rights two years from the grant date and the other half to vest three years from the grant date and did not impose additional performance criteria at the point of vesting period, the restrictions on resale discussed below, and the current stage of the Group's development.
  - The vesting terms of performance rights granted in 2013 were developed in conjunction with a restructuring of the business announced in May 2013. The performance rights vested in three installments. Thirty percent vested on 31 January 2014 with no performance criteria and were designed to provide a retention incentive to Senior Executives and other key employees over what was a particularly challenging time. Thirty five percent vested on 31 July 2014 and the remaining thirty five percent vested on 31 July 2015. The 2013 grant covered performance for both the 2014 and 2015 financial years and as such no grant was made in in the 2015 financial year.
  - The performance rights granted 26 July 2016 vest over a three year period, fifty percent vests at 30 June 2018 and fifty percent at 30 June 2019.
- 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 subsequent grants of performance rights other than in 2013, shares issued upon exercise are restricted from sale for three years from grant date.
  - For performance rights granted in 2013 shares issued upon exercise are not subject to any sale restriction. The Directors utilised the 2013 grant of performance rights as a (non-cash) retention and performance incentive closely tied to the revised business plan and therefore chose not to impose any sale restrictions other than as described immediately below.
  - Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

#### ***Non-executive Directors:***

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee of the Board. The Board reduced fees paid to Non-Executive Directors during the 2014 financial year in line with cost saving initiatives implemented as part of the 2013 revised business plan. The fees set at that time are still effective and are as follows:

- a flat annual fee of \$100,000 for the Chairman with no additional payments for serving on Board committees, and including any applicable statutory superannuation; and
- a base fee of \$70,000 is paid to Non-Executive Directors other than the Chairman, with no additional payments for serving on Board committees, and including any applicable statutory superannuation.

Refer above for disclosures in relation to the discontinuance of granting of equity in the Group to Non-Executive Directors on first joining the Board.

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

#### ***Retirement Allowances for Directors***

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

#### ***Executive Directors and Senior Executive Officers:***

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

- a base salary paid in cash or packaged at the executive's discretion within Australia Fringe Benefit's Tax guidelines as a total cost package. Base salaries are reviewed by the Remuneration and Nomination Committee effective 1 January each year;
- superannuation of 9.5 percent of base salary;
- a variable cash incentive component payable annually dependent upon achievement of performance targets set and approved by the Remuneration and Nomination Committee. Individual and overall performance targets are set by reference to the components of the Group's annual business plan. The Directors believe the Group's approach to variable cash incentive is consistent with the Group's industry sector; and
- equity remuneration as discussed above.

Base pay for Senior Executive Officers is reviewed annually to ensure the executive's pay is commensurate with the responsibilities and contribution of the executive. An executive's pay is also reviewed on promotion. The typical increase in base salary at 1 January 2016 was 1.9%, compared to 2.3% at 1 January 2015.

In establishing the 2016 target variable cash incentives, the Board determined the following percentage of base salary as the appropriate quantum:

- Chief Executive Officer: 30%
- Other Senior Executives: 20%

The Board allocated individual Senior Executive's performance to the achievement of the 2016 corporate objectives as contained in the Group's 2016 business plan as follows:

- Chief Executive Officer: 100%
- Other Senior Executives: 50%

The balance of Other Senior Executive Officers was allocated to the achievement of individual objectives contained in the 2016 business plan.

Corporate objectives for 2016 included:

- Progressing the Company's early stage drug candidates through their development programs
- Maintaining constructive dialogue with Pharmaceutical companies interested in the Company's drug development programs
- Complete recruitment of the clinical trial of Bronchitol for the US market (CF303) and transfer of various technical streams to the US Company's partner Chiesi
- Successful handover of UK and German Bronchitol businesses to Chiesi and the opening of new markets for Bronchitol
- Management of cash funds within budget
- Engagement with potential Australian and overseas institutional investors

The Board assessed overall performance in achieving the 2016 corporate objectives at 81.25%. The assessed performance of individual Other Senior Executive's performance while varying slightly based on specific individual responsibilities and objectives, was finally assessed at 85% for each Other Senior Executives.

#### *Termination payments*

Termination payments do not apply to Non-Executive Directors. The employment contract for the Chief Executive Officer can be terminated immediately by the Board for serious misconduct and with six months' notice without cause by either party. Employment contracts for Senior Executive Officers can be terminated immediately by the Board for serious misconduct and with a maximum of three months' notice without cause by either party. Unless otherwise required by law, no additional payments are required to be paid on termination.

#### *Equity Remuneration*

Information on the Equity Remuneration is set out in Note 30 to the Annual Financial Report included in Section 6 of this Statutory Annual Report. In assessing performance for the purposes of equity remuneration the Remuneration and Nomination Committee considers performance and progress in the current year in context of the Group's longer term business plan objectives.

## 2.2 Details of Remuneration Paid to Directors and Senior Executive Officers

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

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

<u>Name</u>	<u>Position</u>	<u>Employer</u>
Gary Jonathan Phillips	Chief Executive Officer	Pharmaxis Ltd
Brett Charlton	Medical Director	Pharmaxis Ltd
Wolfgang Jarolimek	Head of Drug Discovery	Pharmaxis Ltd
David Morris McGarvey	Chief Financial Officer and Company Secretary	Pharmaxis Ltd
Kristen Morgan	Alliance Management	Pharmaxis Ltd

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

The payment of cash bonuses to Senior Executive Officers is dependent on the satisfaction of performance conditions as discussed in Section 2.1 of this Statutory Annual Report. Performance Rights are not granted, and for components of the 2013 grant are not vested, unless approved by the Remuneration & Nomination Committee. Other elements of remuneration are not directly related to performance.

2016	Short term benefits		Post-employment benefits	Total Cash Remuneration	Leave Entitlements <sup>(1)</sup>	Share based payment	Total
Name	Cash salary or Directors' fees	Cash bonus/ incentive	Superannuation			Value <sup>(3)</sup>	
	A\$	A\$	A\$	A\$	A\$	A\$	A\$
<i>Non executive Directors</i>							
MJ McComas <i>Chairman</i>	100,000	–	–	100,000	–	–	100,000
WL Delaat	70,000	–	–	70,000	–	–	70,000
SHW Buckingham	63,927	–	6,073	70,000	–	–	70,000
<i>Sub total Non-executive Directors</i>	<b>233,927</b>	–	<b>6,073</b>	<b>240,000</b>	–	–	<b>240,000</b>
<i>Executive Director</i>							
GJ Phillips	409,510	100,757	38,141	548,408	12,300	191,416	752,124
<i>Senior Executive Officers</i>							
B Charlton	325,526	54,628	30,925	411,079	8,775	73,836	493,690
WG Jarolimek	282,660	47,434	26,853	356,947	20,108	158,543	535,598
DM McGarvey	338,817	56,858	32,188	427,863	(4,893)	190,137	613,107
K Morgan	128,360	25,209	12,194	165,763	6,800	13,406	185,969
<b>Totals</b>	<b>1,718,800</b>	<b>284,886</b>	<b>146,374</b>	<b>2,150,060</b>	<b>43,090</b>	<b>627,338</b>	<b>2,820,488</b>

(1) Represents net movement in entitlements to annual leave and long service leave.

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

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

2015	Short term benefits		Post-employment benefits	Total Cash Remuneration	Leave Entitlements <sup>(6)</sup>	Share based payment	Total
Name	Cash salary or Directors' fees	Cash bonus/incentive	Superannuation			Value <sup>(8)</sup>	
	A\$	A\$	A\$	A\$	A\$	A\$	A\$
<i>Non executive Directors</i>							
MJ McComas <i>Chairman</i>	100,000	–	–	100,000	–	–	100,000
WL Delaat	70,000	–	–	70,000	–	–	70,000
SHW Buckingham	63,927	–	6,073	70,000	–	13,000	83,000
<i>Sub total Non-executive Directors</i>	<b>233,927</b>	<b>–</b>	<b>6,073</b>	<b>240,000</b>	<b>–</b>	<b>13,000</b>	<b>253,000</b>
<i>Executive Director</i>							
GJ Phillips	401,096	324,525	36,099	761,720	15,424	83,770	860,914
<i>Senior Executive Officers</i>							
B Charlton	318,739	104,800	30,059	453,598	14,809	46,846	515,253
HG Fox <sup>(1)</sup>	224,286	17,337	14,973	256,596	9,531	46,709	312,836
MC Gallacé <sup>(2)</sup>	68,887	–	6,544	75,431	(13,780)	15,872	77,523
WG Jarolimek	246,850	196,000	23,451	466,301	504	39,864	506,669
DM McGarvey <sup>(3)</sup>	331,855	234,940	31,526	598,321	(73,247)	47,531	572,605
K Morgan <sup>(4)</sup>	109,481	11,064	11,619	132,164	4,148	5,467	141,779
G Velummylum <sup>(5)</sup>	117,261	6,284	7,833	131,378	(5,983)	26,334	151,729
<b>Totals</b>	<b>2,052,382</b>	<b>894,950</b>	<b>168,177</b>	<b>3,115,509</b>	<b>(48,594)</b>	<b>325,393</b>	<b>3,392,308</b>

- (1) HG Fox ceased to be regarded as a Senior Executive Officer on 31 December 2014, following his redundancy. The cash remuneration includes termination payments totalling \$66,680.
- (2) MC Gallacé ceased to be regarded as a Senior Executive Officer on 30 November 2014, following her resignation.
- (3) The cash salary for DM McGarvey included payment of long service leave. Accordingly, his net leave entitlement for the year is negative following utilisation of his accumulated long service leave provision.
- (4) K Morgan was promoted to a Senior Executive Officer position on 25 May 2015. The remuneration represents her full year cash earnings and other non-cash benefits.
- (5) G Velummylum ceased to be regarded as a Senior Executive Officer on 10 November 2014, following her redundancy. The cash remuneration includes termination payments totalling \$41,096.
- (6) Represents net movement in entitlements to annual leave and long service leave. The negative balances for MC Gallacé and G Velummylum represent reversal of accrual entitlements on departure or redundancy.
- (7) There were no non-monetary benefits provided.
- (8) The value of share based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share based remuneration over the vesting period.

### Remuneration subject to risk

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

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the above tables.

#### Relative proportions of fixed vs variable remuneration expense

Name	Fixed Remuneration		At risk - STI		At risk – LTI <sup>(1)</sup>	
	2016	2015	2016	2015	2016	2015
<i>Non executive Directors</i>						
MJ McComas <i>Chairman</i>	100%	100%	–	–	–	–
WL Delaat	100%	100%	–	–	–	–
SHW Buckingham	100%	84%	–	–	–	16%
<i>Executive Director</i>						
GJ Phillips	61%	52%	13%	38%	26%	10%
<i>Senior Executive Officers</i>						
B Charlton	74%	71%	11%	20%	15%	9%
HG Fox <sup>(2)</sup>	–	79%	–	6%	–	15%
MC Gallacé <sup>(2)</sup>	–	80%	–	–	–	20%
WG Jarolimek	61%	53%	9%	39%	30%	8%
DM McGarvey	60%	51%	9%	41%	31%	8%
K Morgan	79%	88%	14%	8%	7%	4%
G Velummylum <sup>(2)</sup>	–	79%	–	4%	–	17%

(1) Since the long-term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of remuneration consisting of options, based on the value of options expensed during the year. Where applicable, the expenses include negative amounts for expenses reversed during the year due to a failure to satisfy the vesting conditions.

(2) Not employed in the 2016 financial year.

### 2.3 Service Agreements with Senior Executive Officers

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

Senior Executive Officer <sup>(3)</sup>	Annual Base Salary Effective 1 July 2016 <sup>(1)</sup> \$	Superannuation Contributions <sup>(2)</sup> \$
Gary J Phillips, <i>Chief Executive Officer and Managing Director</i>	413,364	39,270
Brett Charlton, Ph.D., <i>Medical Director</i>	328,590	31,216
Wolfgang G Jarolimek <i>Head of Drug Discovery</i>	285,320	27,105
David M McGarvey, C.A., <i>Chief Financial Officer and Company Secretary</i>	342,005	32,490
Kristen Morgan <i>Alliance Management</i>	131,200	12,464

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

(2) The Company makes superannuation fund contributions equal to 9.5% of the annual base salary per year for the benefit of the Senior Executive Officers.

(3) The employment contracts for all Senior Executive Officers are evergreen in nature.

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

### Prior Year Grants of Equity to Non-Executive Director

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

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

Grant date	18 October 2012
Number of zero consideration, zero exercise price options	30,000
Grant consideration	Nil
Exercise price	Nil
Vesting	The third anniversary of grant provided the Director is still in office
Restrictions	Shares issued on exercise of the options are restricted from sale by the Director without prior Board approval

### Grants of Equity under the Employee Performance Rights Plan

For performance rights granted to Senior Executive Officers and nominated employees in periods other than 2013, the Board did not impose additional performance criteria at the point of vesting in recognition of the vesting period (subject to continuing employment) and the subsequent restrictions on exercise and sale of Pharmaxis Ltd shares issued upon exercise.

For the performance rights granted to Senior Executive Officers and nominated employees in 2013, the Board imposed additional performance criteria on the components that vest at 31 July 2014 and 31 July 2015 to align with achievement of corporate objectives. (See Additional Information below for actual vesting)

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

Grant date	Expiry date	Exercise price	Value per performance right at grant date	Number of performance rights granted	Number of option grantees	Vesting Date <sup>(1)</sup>
29 June 2012	28 June 2022	\$ Nil	\$1.025	632,000	5	50% at 29 June 2014 and 50% at 29 June 2015
18 October 2012	17 October 2022	\$ Nil	\$1.30	30,000	1	100% at 17 October 2015
7 June 2013	6 June 2023	\$ Nil	\$0.145	2,095,000	3	30% 31 January 2013, 35% at 31 July 2014 and 35% at 31 July 2015
29 November 2013	6 June 2023	\$ Nil	\$0.115	2,000,000	1	30% 31 January 2013, 35% at 31 July 2014 and 35% at 31 July 2015
31 July 2015	30 June 2025	\$ Nil	\$0.225	1,269,000	4	50% at 30 June 2017 and 50% at 30 June 2018
31 July 2015	30 June 2025	\$ Nil	\$0.225	1,390,000	3	100% at 30 June 2016
31 July 2015	30 June 2025	\$ Nil	\$0.230	815,000	1	100% at 30 June 2016
31 July 2015	30 June 2025	\$ Nil	\$0.230	811,000	1	50% at 30 June 2017 and 50% at 30 June 2018

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

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

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

## Equity Grants in 2016 to Directors and Senior Executive Officers

### Options

The granting of market priced options under the Employee Option Plan was discontinued from October 2009. Further information on these options is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 30 to the Annual Financial Report in Section 6 of this Statutory Annual Report.

### Performance Rights

Details of performance rights over ordinary shares provided as remuneration to each Director and each Senior Executive Officer is set out below. When exercisable, each performance right is convertible into one ordinary share. Performance rights are issued at a zero purchase price. Vesting details are set out in the subsequent table. Further information on the performance rights is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 30 to the Annual Financial Report in Section 6 of this Statutory Annual Report. The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below. Fair value at grant date is assessed using the closing share price on the date of grant.

Name	Performance rights granted during the year				Number of rights vested during the year	
	2016			2015	2016	2015
	Expiration Date	Exercise Price	Number	Number		
<b>Directors of Pharmaxis Ltd</b>						
MJ McComas <i>Chairman</i>	–	–	–	–	–	–
GJ Phillips <i>Chief Executive Officer</i>	30 June 2025	–	1,626,000	–	1,515,000	390,000
WL Delaat	–	–	–	–	–	–
SHW Buckingham	–	–	–	–	30,000	–
<b>Senior Executive Officers</b>						
B Charlton	30 June 2025	–	547,000	–	271,250	237,750
HG Fox	–	–	–	–	–	161,700
WG Jarolimek	30 June 2025	–	896,000	–	257,000	197,850
DM McGarvey	30 June 2025	–	1,073,000	–	280,000	243,000
K Morgan	30 June 2025	–	143,000	–	–	16,000

### Shares Provided on Exercise of Remuneration Options

Name	Date of grant of options	Amount paid per share on exercise	Ordinary shares issued on exercise of options during the year	
			2016	2015
<b>Senior Executive Officers of the Group</b>				
GJ Phillips	7 September 2010	\$ Nil	–	40,000
GJ Phillips	29 June 2012	\$ Nil	75,000	75,000
GJ Phillips	29 November 2013	\$ Nil	700,000	915,000
B Charlton	29 June 2012	\$ Nil	–	150,000
B Charlton	7 June 2013	\$ Nil	271,250	162,750
HG Fox	7 September 2010	\$ Nil	–	40,000
HG Fox	29 June 2012	\$ Nil	–	75,000
HG Fox	7 June 2013	\$ Nil	–	392,700
MC Gallacé	7 September 2010	\$ Nil	–	15,000
MC Gallacé	29 June 2012	\$ Nil	–	16,000
MC Gallacé	7 June 2013	\$ Nil	–	114,000
WG Jarolimek	15 November 2010	\$ Nil	9,000	–
WG Jarolimek	29 June 2012	\$ Nil	75,000	75,000
WG Jarolimek	7 June 2013	\$ Nil	182,000	278,850
DM McGarvey	7 September 2010	\$ Nil	–	40,000
DM McGarvey	29 June 2012	\$ Nil	–	150,000
DM McGarvey	7 June 2013	\$ Nil	280,000	408,000
K Morgan	7 September 2010	\$ Nil	–	9,000
K Morgan	29 June 2012	\$ Nil	–	32,000
G Velummylum	7 September 2010	\$ Nil	–	10,000
G Velummylum	29 June 2012	\$ Nil	–	35,000
G Velummylum	7 June 2013	\$ Nil	–	157,500



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

### Details of Director and Senior Executive Officer Remuneration: Cash Bonuses and Performance Rights

For each cash bonus and grant of performance rights included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

Performance rights granted in 2012 and 2015 vest 50% two years from the date of grant and 50% three years from the date of grant, provided the Senior Executive Officer remained an employee of the Group at the relevant vesting date. Performance rights granted 2013 vested in three instalments. Thirty percent vested on 31st January 2014. Subject to achievement of set performance criteria, a maximum of thirty five percent could vest on 31st July 2014 and a maximum of 35% could vest on 31st July 2015. Unvested performance rights lapse in the event the Senior Executive Officer ceases to be an employee before the relevant vesting date. In relation to the component of performance rights potentially vesting at 31 July 2014, 45% vested based on performance in the 2014 financial year, 35% failed to vest based on performance in the 2014 financial year and 20% lapsed due to the employee no longer being employed by the group. On 23 July 2015 the Board resolved to vest 100% of the 31 July 2015 vesting component based on performance in the 2015 financial year.

Name	Cash Bonus		Performance Rights					
	Payable %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
<i>Non-executive Directors</i>								
MJ McComas	–	–	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–	–	–
SHW Buckingham	–	–	–	–	–	–	–	–
<i>Executive Director</i>								
GJ Phillips	81.25%	18.75%	2012 2014 2016	100 81 50	– 19 –	2016 2017, 2018	–	187,450
<i>Senior Executive Officers</i>								
B Charlton	85%	15%	2012 2013 2016	100 86 29	– 14 –	2016 2017, 2018	–	87,075
WG Jarolimek	85%	15%	2012 2013 2016	100 89 63	– 11 –	2016 2017, 2018	–	75,600
DM McGarvey	85%	15%	2012 2013 2016	100 86 62	– 14 –	2016 2017, 2018	–	90,675
K Morgan	85%	15%	2012 2016	100 –	– –	2016 2017, 2018	–	32,175

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

Further details relating to options and performance rights granted to, exercised by or lapsed, for Directors and Senior Executive Officers during the financial year ended 30 June 2016 are set out below

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date (Granted 2012 to 2013) \$
<i>Performance Rights</i>				
GJ Phillips	50%	373,980	174,375	–
B Charlton	25%	123,075	56,963	–
WG Jarolimek	38%	201,600	57,450	–
DM McGarvey	39%	241,425	63,000	–
K Morgan	17%	32,175	–	–

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

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

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

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

### Share Holdings of Directors and Senior Executive Officers

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).

2016 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Pharmaxis Ltd</b>				
<b>Ordinary shares</b>				
MJ McComas	339,999	–	–	339,999
GJ Phillips	1,090,000	775,000	–	1,865,000
W Delaat	33,334	–	–	33,334
SHW Buckingham	200,000	–	–	200,000
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
B Charlton	330,964	271,250	–	602,214
WG Jarolimek	355,850	266,000	(300)	621,550
DM McGarvey	620,127	280,000	–	900,127
K Morgan	51,340	–	–	51,340

2015 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Pharmaxis Ltd</b>				
<b>Ordinary shares</b>				
MJ McComas	339,999	–	–	339,999
GJ Phillips	60,000	1,030,000	–	1,090,000
W Delaat	33,334	–	–	33,334
SHW Buckingham	200,000	–	–	200,000
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
B Charlton	283,214	312,750	(265,000)	330,964
HG Fox	–	507,700	(507,700)	–
MC Gallacé	2,340	145,000	(147,340)	–
WG Jarolimek	2,000	353,850	–	355,850
DM McGarvey	412,127	598,000	(390,000)	620,127
K Morgan	35,340	16,000	–	51,340
G Velummylum	2,340	202,500	(204,840)	–

### Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2016.

### Loans to Directors and executives

Nil. Not permitted under Pharmaxis corporate governance framework.

## 2.6 Equity Remuneration

### *Shares Under Equity Plans*

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

Equity Plan movement	Number
Total unissued ordinary shares under plans at 30 June 2016 – refer Note 30 to the Annual Financial Report included in Section 6 of this Statutory Annual Report	7,411,387
Options lapsed during the period from 1 July 2016 to 18 August 2016 (Granted from 2005 to 2009)	(38,750)
Performance rights granted on 26 July 2016	3,848,000
	<b>11,220,637</b>

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

### *Shares issued on the exercise of options*

There were no ordinary shares issued during the year ended 30 June 2016 on the exercise of options granted under the Employee Option Plan.

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

The following ordinary shares were issued during the year ended 30 June 2016 on the exercise of performance rights granted under the Performance Rights Plan or zero exercise priced option share plan. No amounts are unpaid on any of the shares.

Date performance rights granted	Issue price of shares	Number of shares issued
7 September 2010	\$ Nil	8,000
20 October 2010	\$ Nil	12,000
15 November 2010	\$ Nil	9,000
29 June 2012	\$ Nil	203,000
7 June 2013	\$ Nil	1,200,500
29 November 2013	\$ Nil	700,000
		<b>2,132,500</b>

### 3. CORPORATE GOVERNANCE

Pharmaxis has developed a corporate governance framework including supporting policies and practices consistent with the Corporate Governance Principles and Recommendations 3rd Edition ("ASX Governance Principles").

The Board reviews and updates the corporate governance framework as required.

A description of the Pharmaxis corporate governance framework, supporting policies and required ASX corporate governance disclosures may be found in the corporate governance section on the Pharmaxis website at [www.pharmaxis.com/investor\\_centre/corporate\\_governance](http://www.pharmaxis.com/investor_centre/corporate_governance). The Company has filed Appendix 4G with the ASX, providing a key to where our corporate governance disclosures can be located.

### 4. SENIOR MANAGEMENT

#### Executive Director and Senior Executive Officers

Information about Executive Director and Senior Executive Officers as of 18<sup>th</sup> August 2016.

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

*Brett Charlton, Ph.D.*, (aged 60) is a co-founder of Pharmaxis and has been Medical Director and was a member of the Board of Directors from June 1998 to March 2006. Dr Charlton is the author of more than 60 scientific papers and has over 16 years of experience in clinical trial design and management. Dr Charlton was founding Medical Director of the National Health Sciences Centre and established its Clinical Trials Unit. Prior to joining us, Dr Charlton held various positions with the Australian National University, Stanford University, the Baxter Centre for Medical Research, Royal Melbourne Hospital, and the Walter and Eliza Hall Institute. Dr Charlton holds an M.B.B.S. with honors from the University of New South Wales and a Ph.D. from the University of New South Wales.

*Wolfgang G. Jarolimek, Ph.D.*, (aged 52) joined Pharmaxis in September 2010 as Manager in vitro Pharmacology and was appointed Head of Drug Discovery in August 2012. Dr Jarolimek has more than 15 years' experience in pharmaceutical drug discovery and has published more than 20 peer reviewed articles. From 2002 to 2010 Dr Jarolimek was Director of Assay Development and Compound Profiling at the GlaxoSmithKline Center of Excellence in Drug Discovery in Verona, Italy. In addition to chairing early drug discovery efforts locally he also had global responsibilities for ion channel screening and implementing safety-related screening. From 1998 to 2002 Dr Jarolimek worked at the Neuroscience Center of Merck, Sharp and Dohme in Harlow, England, as Senior Research Scientist in the electrophysiology group. Prior to joining pharma companies he spent 8 years as post-doc at the Max-Planck Institute in Munich, Germany; Baylor College of Medicine, Houston, Texas; Rammelkamp Center, Cleveland Ohio; and University of Heidelberg, Germany. Dr Wolfgang Jarolimek holds a B.Sc. in Pharmacy and a PhD from the University of Saarbrücken, Germany. In 1997 he became Assistant Professor in Physiology at the University of Heidelberg, Germany.

*David M. McGarvey, C.A., C.P.A.*, (aged 60) has been Chief Financial Officer and Company Secretary since December 2002. Mr McGarvey has twenty six years' experience in overseeing the financial affairs of different Australian companies. From 1998 to 2002, Mr McGarvey served as Chief Financial Officer of the Filtration and Separations Group of U.S. Filter. From 1985 to 1997, Mr McGarvey served as Chief Financial Officer of Memtec Limited. While at Memtec, Mr McGarvey oversaw the U.S. listing of Memtec on the Nasdaq Global Market and the New York Stock Exchange and managed numerous international merger and acquisition transactions. From 1975 to 1985, Mr McGarvey held various positions at PricewaterhouseCoopers. Mr McGarvey holds a B.A. in Accounting from Macquarie University and was admitted to the Institute of Chartered Accountants in Australia in 1981, and to the membership of CPA Australia in 1993.

*Kristen Morgan BSc, PGDipBusAdmin, MMedSc* (aged 44) has responsibility for Alliance Management and Medical and Regulatory Affairs. Ms Morgan joined Pharmaxis in August 2008 as Head of Medical Affairs and has 19 years experience in the pharmaceutical industry. Ms Morgan previously held a senior role in Medical Affairs at Sanofi-aventis, and held a commercial/sales role at GSK. Ms Morgan holds a B.Sc from Queensland University (major in pharmacology), a Postgraduate Diploma of Business Administration from Queensland University of Technology and a Masters of Medical Science (Drug Development) from University of New South Wales.

## 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this report. The Company's financial year ends on 30 June.*

### 5.1 Review of 2016 Operations

Pharmaxis is an Australian research pharmaceutical company with a portfolio of products at various stages of development and approval.

Established in 1998 and listed on the Australian Securities Exchange in 2003 the Company's head office, manufacturing and research facilities are located in Sydney, Australia.

The Company's development pipeline is centred on its expertise in amine oxidase chemistry and includes Semicarbazide-Sensitive Amine Oxidase Inhibitors (SSAO) for Non-alcoholic Steatohepatitis (NASH) and inflammatory diseases including kidney fibrosis and Chronic Obstructive Pulmonary Disease (COPD), and Lysyl Oxidase Inhibitors (LOX) targeting fibrotic diseases including NASH, pulmonary fibrosis and some cancers. Pharmaxis' acknowledged expertise in amine oxide chemistry has attracted interest from leading pharmaceutical companies looking to make acquisitions or partner in this rapidly expanding area of scientific research. In May 2015, Boehringer Ingelheim (Boehringer) acquired the Pharmaxis phase 1 investigational drug PXS4728A (a SSAO inhibitor), to develop it for the treatment of the diabetes and liver-related condition NASH.

Pharmaxis manufacture and exports its approved products from a purpose built high-tech manufacturing facility in Sydney.

- Bronchitol<sup>®</sup>, an inhaled dry powder for the treatment of cystic fibrosis, has been the subject of two large scale global clinical trials conducted by Pharmaxis. The product is marketed in Europe and Australia and a third large multicentre clinical trial is currently underway aiming to secure approval in the United States.
- Aridol<sup>®</sup> a lung function test for asthma was also the subject of a clinical trial program run by Pharmaxis and is approved and sold in Europe, Australia and Asia.

The management and Board of Directors have significant experience in drug discovery and pharmaceutical marketing.

During the current year the Company achieved substantial progress under its new business model which was completed at the end of the 2015 financial year.

- Pharmaxis announced positive results for all primary and secondary endpoints from the phase 1 clinical trial of PXS-4728A. Pharmaxis had a commitment to complete the phase 1 study as a part of the agreement with Boehringer and earlier in the 2015 calendar year reported positive results from the initial phase 1a single ascending dose stage of this clinical trial. Once daily oral dosing of PXS-4728A for 14 days at doses between 3 mg and 10 mg was found to be safe and well tolerated. The data confirmed the high oral bioavailability of PXS-4728A and most importantly, showed these low doses are efficacious in inhibiting the enzyme and cause a long lasting inhibition. PXS-4728A is therefore ideally suited for potential use as a chronic treatment; a once a day tablet that causes 24 hour inhibition of the target enzyme at low doses. Importantly, these positive phase 1 results enabled Boehringer Ingelheim to proceed with further development of the program. Under the agreement, Boehringer is responsible for all development, regulatory, manufacturing and commercialisation activities, and Pharmaxis is entitled to total potential future milestones of €390 million (~A\$570 million) to approval for 2 indications plus sales milestones and earn out payments at a high single digit percentage of sales.
- Boehringer has confirmed its expectation that a phase 2 trial of PXS-4728A will commence in the first quarter of calendar 2017, at which time a milestone payment of approximately A\$25 million will be payable to Pharmaxis. The Company considers Boehringer an excellent partner for the development of PXS-4728A. It has an extensive metabolic franchise and a clear belief in SSAO as a well validated target in NASH – an increasingly common disease with a high unmet need and a huge potential market. PXS-4728A is Boehringer's lead clinical candidate for this new and emerging market.
- Pharmaxis announced a research collaboration with UK biotechnology company Synairgen plc (LSE: SNG) to develop a selective inhibitor to the Lysyl Oxidase Type 2 enzyme (LOXL2) to treat the fatal lung disease idiopathic pulmonary fibrosis (IPF). IPF affects approximately 100,000 people in the US. Pharmaxis is targeting the LOXL2 enzyme because it is known to promote scar tissue which hardens and irreparably damages the lungs of IPF patients. It is hoped that the inhibition of LOXL2 will slow the build-up of scar tissue and improve survival rates that are worse than many cancers. Under the terms of the agreement Synairgen will fund further activity of the program, use its BioBank and in vitro lung model platform, and collaborate with the IPF research team at the University of Southampton in the UK to complete pre-clinical and early clinical development. The IPF program is managed by a joint steering committee through to the end of phase 1 or phase 2a clinical trials, at which time the collaboration will seek a license partner. Pharmaxis and Synairgen will share any licensing revenues in accordance with the ratio of total investment by the two companies at that time. The share of licensing revenues is expected to be approximately equal for a compound licensed for IPF after early clinical development. The significant interest among leading clinicians and pharmaceutical companies in the role of LOXL2 in a number of different diseases highlighted the need for Pharmaxis to collaborate for selected indications in order to fully exploit the potential value of the Company's intellectual property. Synairgen has a demonstrated excellence in respiratory drug development, having successfully licensed its inhaled IFN-beta Phase 2 program to AstraZeneca. By collaborating with Synairgen, Pharmaxis aims to accelerate the development of a highly competitive once a day oral treatment for patients with IPF while continuing to independently develop LOXL2 inhibitors for other potential indications.
- The Pharmaxis drug discovery program to develop new drugs for fibrotic diseases such as NASH and IPF delivered several very suitable drug candidates that will now be assessed in conjunction with the Company's UK research collaborator Synairgen to determine which should be progressed into human clinical trials in the 2017 calendar year. The search for good anti fibrotic medications remains highly competitive and the once-a-day oral small molecule inhibitors of the enzyme LOXL2 produced by Pharmaxis' in house program offer great hope for patients. Interest in this program from large pharmaceutical companies with whom the Company has an ongoing dialogue remains strong and is actively shaping the Pharmaxis pre-clinical development program.

- Pharmaxis' other drug discovery programs have also made substantial progress. In particular the neuro inflammation program identified a lead compound and the Company has started assessing the appropriate disease indication for further development based on feedback from potential partners.
- The Company completed recruitment for its phase 3 Bronchitol clinical trial in cystic fibrosis (CF303). The trial is designed to meet the remaining clinical requirements of the complete response letter received from the US Food and Drug Administration (FDA) in 2013. Pharmaxis expects to receive the results of the trial in the second quarter of 2017 and assuming a positive outcome, the submission of the trial results to the FDA by Chiesi later that year.
- Pharmaxis reported positive results for its phase 2 trial of Bronchitol in children and adolescents with cystic fibrosis (CF204). The trial, conducted across 39 global centres, met its primary endpoint and confirms that Bronchitol is efficacious in young patients, regardless of whether patients are taking dornase alfa. During the Bronchitol treatment period patients had a statistically significant improvement in lung function compared to placebo showing an absolute improvement of 3.42% (p=0.004) in FEV1 (% predicted) which equates to a relative change in FEV1 (% predicted) of 4.97% (p=0.005). Secondary endpoints in the trial included absolute change in FEF25-75 (% predicted) which is thought to have particular significance in younger patients. Bronchitol produced an absolute improvement of 5.75% (p=0.005) in FEF25-75 equating to a relative improvement of 10.5%. In other secondary endpoints, treatment induced sputum weight was significantly increased (p=0.012) and a positive trend was seen in FVC. Although not recorded as a formal endpoint, patients on Bronchitol experienced approximately 25% fewer lung infections and exacerbations of CF which support the improvements seen in earlier studies despite the short duration of this study. The trial utilised a number of different design features to overcome some of the issues seen in this age group in the earlier phase 3 studies; in particular the European Medicines Agency (EMA) agreed to the use of large particle size non-respirable mannitol as the placebo rather than a smaller dose of the active drug as used in the phase 3 trials. As a result the placebo effect seen in this study is minimal and it has therefore not only provided important and reassuring additional evidence on the benefit of Bronchitol in the paediatric and adolescent population but also highlighted that the results of the earlier phase 3 studies, where a control effect was seen in younger patients, may have been understated. In the trial subjects, Bronchitol was well-tolerated overall and had a favourable safety profile. There was no difference in the rate of adverse events or serious adverse events between the treatment groups. The most common adverse event was cough, which was mild to moderate in most cases and similar between the treatment arms. All haemoptysis events were categorised as either scant or mild and the overall level was below background rates reported in other comparable studies. The trial was designed in consultation with the EMA as a condition of the marketing authorisation granted for Bronchitol for treating adult cystic fibrosis patients in Europe. To meet the condition in full Pharmaxis will submit a detailed study report to the EMA in 2016. Given the results are on top of the current standard of care and are seen to be clinically significant, the Company has determined to seek an extension of the EU marketing authorisation to include children and adolescents and in accordance with mandated regulatory timeframes will submit an application in early 2017. It is not yet known if the trial results alone will be sufficient to gain approval of an extended label.
- Approval and reimbursement applications continue to progress in various countries including Russia, Eastern Europe, the Middle East and Brazil. Russian approval is expected shortly.
- The Company finished the financial year with a cash balance of \$39 million and net cash usage over the year of \$15 million and is therefore well positioned.

## 5.2 Results of Operations

### Sales

Sales for the year ended 30 June 2016 of \$6.1 million (2015: \$6.0 million) included Bronchitol sales of \$4.3 million (2015: 4.2 million) and Aridol sales of \$1.8 million (2015: 1.8 million). Bronchitol sales in our largest launched markets, Germany and the United Kingdom, represent approximately 80% of total Bronchitol sales. Bronchitol was sold by Pharmaxis directly to pharmacies in these markets until 31 May 2015 after which Bronchitol was sold via our exclusive distributor Chiesi. Sales by Pharmaxis to Chiesi are at a lower unit price to allow for distributor margins.

### Other revenue

Other revenue for the year ended 30 June 2016 of \$9.4 million compares to \$52.5 million for the prior period. There are three components to this revenue group.

- (a) Sale of drug candidate - \$nil (2015 \$40.6 million). In May 2015 Boehringer Ingelheim acquired the Company's phase 1 anti-inflammatory drug candidate PXS4728A, including associated intellectual property rights. The Company received an option fee of €1.25 million (approximately A\$1.8m) on signing the Agreement and an upfront payment of €27.5 million (approximately A\$38.8m) on exercising of the option.
- (b) Clinical trial cost reimbursement - \$8.2 million (2015: \$11.1 million). These amounts represent clinical trial cost reimbursements by our US partner Chiesi in relation to the ongoing phase 3 clinical trial of Bronchitol. Under our agreement, Chiesi is responsible for the first US\$22 million of costs. The revenue recognised each period represents clinical trial costs invoiced to Chiesi reduced by a revenue deferral designed to recognise Pharmaxis' expected funding requirement at the end of the trial (currently estimated at up to US\$ 4 million) over the term of the trial. The total deferred revenue at 30 June 2016 is A\$3.7 million, of which A\$2.7 million was deferred in the 2016 financial year. Note that approximately \$3.2 million of the \$11.1 million recorded as income in the 2015 financial year was reimbursement for costs incurred and expensed in the 2014 financial year, reimbursed by Chiesi after the agreement was signed in December 2014.
- (c) Interest income - \$1.2 million (2015: \$721,000). The increase in interest income was driven by a higher average balance of cash and cash equivalents available for investment during the period.



## Other income

Other income increased from \$0.8 million in 2015 to \$3.5 million in 2016. The components to this income group are as follows.

- (a) R&D tax incentive credits - \$2.1 million (2015: \$164,000). The R&D Tax Incentive scheme in Australia enables a 45.0 per cent refundable tax offset to eligible entities with an aggregated turnover of less than \$20 million per annum. As the Company's revenue was in excess of the \$20 million cap for the 2015 fiscal year no R&D tax incentive credit was recorded for that year's eligible research. The amount recorded in the 2015 financial year represented an adjustment to the 2014 claim.
- (b) Drug discovery service fee - \$925,000 (2015: nil). This item represents amounts charged to Synairgen under our research collaboration agreement, predominantly related to the provision of chemistry services.
- (c) The remaining components to other income include license fees on entering distribution agreements in 2015 (A\$0.2 million), and income on sub-leasing of premises (A\$0.3 million per annum).

## Employee costs

Employee related expenses were \$10.5 million in 2016 compared to \$14.1 million in 2015. Employee costs include share based payments (non-cash) totaling \$0.9 million (2015: credit of \$0.35 million). The reduction in employee costs reflects the business restructure and reduction in employee numbers completed at the end of the 2015 financial year.

## Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were \$2.1 million in 2016 compared to \$3.3 million in 2015. The decrease has been driven by a reduction in a range of administration and corporate costs as the general business complexity was rationalized.

## Clinical trials

Clinical trials expenses were \$12.0 million in 2016 compared to \$11.3 million in 2015. The clinical trials expenses relate to the external costs incurred and are predominately driven by fees paid to the clinical research organisations contracted to manage the trials in multiple jurisdictions, and costs paid to participating site investigators. Clinical trial costs predominantly relate to the phase 3 clinical trial in cystic fibrosis which are reimbursed by Chiesi up to US\$22 million. Costs in relation to the phase 2 paediatric trial conducted in Europe that completed and reported during the 2016 year were \$645,000. Clinical trial costs also include the phase 1 trial for drug candidate PXS-4728A which was substantially completed in the 2015 financial year at a cost of \$109,000 in 2016, \$1.8 million in 2015.

## Drug development

Drug development expenses were \$2.9 million in 2016 compared to \$1.7 million in 2015. The drug development expenses relate to the external costs incurred in running the Company's research laboratory (excluding any allocation of lease and utilities), selecting and then progressing drug candidates through the pre-clinical development path. The amount of resources allocated to this group was constrained for much of the 2015 financial year. Following the acquisition by Boehringer Ingelheim in May 2015 of the Company's phase 1 anti-inflammatory drug candidate PXS-4728A, the Company increased investment and focus on developing new drugs from its amine oxidase chemistry platform.

## Sales, marketing & distribution

Sales & marketing expenses are primarily focused on external costs incurred in selling Bronchitol globally. Limited resources are directed at the sale of Aridol. Sales & marketing expenses for the current year were \$1.1 million compared to \$2.0 million in 2015. The expenses in both years included costs associated in applying for pricing reimbursements and the decrease in sales & marketing expenses reflects a more tailored and targeted approach in markets, in line with sales performance and growth. The appointment of Chiesi as exclusive distributor for the main European markets where Bronchitol is currently sold and the subsequent closure of the Company's European commercial infrastructure on 31 May 2015 resulted in the significant reduction in sales, marketing and distribution costs in the 2016 financial year.

## Safety, medical and regulatory affairs

Safety, medical and regulatory affairs expenses relate to external costs 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 was \$1.7 million in both 2016 and 2015. The level of expenditure is relatively consistent and from a regulatory perspective primarily related to routine licence maintenance. The main cost relates to satisfying the requirement of the Company's EU Bronchitol approval to undertake a prospective observational safety study of Bronchitol in adult cystic fibrosis patients over a 5 year period. The costs of this study totalled \$0.48 million (2015: \$0.73 million).

## Manufacturing purchases

Manufacturing purchases were \$1.9 million in 2016 compared to \$1.7 million in 2015. This group of costs includes raw material and consumable purchases, external costs associated with running the production and quality control processes and repair & maintenance costs associated with manufacturing equipment and our manufacturing facility. In addition to manufacture and supply of commercial product, purchases also related to the manufacture of clinical trial material for the Phase 3 clinical trial in cystic fibrosis which commenced dosing subjects during the 2015 financial year.

## Other

Other expenses were \$0.4 million in 2016 compared to \$1.9 million in 2015. This category encompasses royalties, corporate travel related costs, shared office administration costs, and other costs as well as the net transfer of manufacturing labour and overhead to and/or from inventory.

### **Foreign currency exchange gains and losses**

Foreign currency exchange gains and losses includes an unrealised loss of \$911,000 (2015: \$1,495,000 loss) in relation to the financing agreement with NovaQuest.

### **Depreciation & amortisation**

Depreciation and amortisation expense was \$3.0 million in fiscal 2016 compared to \$3.4 million in fiscal 2015. The decrease in expense reflects the write down of certain intangible assets and the full depreciation of certain intangible assets in prior.

### **Finance expenses**

Finance expenses were a credit totalling \$2.5 million in 2016 compared to a credit expense of \$2.7 million in 2015. There are two components to this group of expenses.

- (a) Finance charges associated with the capitalised finance lease of our corporate manufacturing facility at French's Forest, Sydney totalling \$0.7 million (2015: \$0.7 million).
- (b) Finance expenses relating to the NovaQuest financing agreement. In the last quarter the Company revised the assumptions on which the financing liability is calculated including the quantum and timing of forecast sales on which future payments are expected to be made and expected foreign currency rates used to forecast sales. As a result the liability was reduced by A\$3.1 million with a corresponding reduction in finance expense. In the 2015 financial year the Company completed an amended financing agreement which resulted in a negative finance expense for the year of \$2.7 million.

### **Impairment expenses**

Restructure and impairment expenses were \$0.2 million in 2016 compared to \$0.3 million in 2015. Both the 2016 and 2015 charges relate to the write down of several patent families following a re-assessment of their recoverability.

### **Income tax expense**

Income tax expense relates to tax on the income generated by the group's subsidiaries which are reimbursed for their expenditures on a cost plus basis, upon which tax is payable.

### **Profit/(Loss)**

The Company recorded a loss of \$16.5 million in 2016 compared to a profit in 2015 of \$18.5 million primarily due to the sale of the Company's phase 1 anti-inflammatory drug candidate PXS4728A to Boehringer Ingelheim for a total of \$40.6 million in 2015. The Company also experienced other revenue growth and ongoing reductions in operating expenses discussed above.

### **Basic and diluted net profit / (loss) per share**

Basic and diluted net loss per share was \$0.052 in 2016 compared to a net profit per share of \$0.059 in 2015.

## **5.3 Liquidity and Capital Resources**

As at 30 June 2016 Pharmaxis had cash and cash equivalents of \$39.2 million as compared to \$54.1 million at 30 June 2015. The components of the Company's cash flow during 2016 were as follows:

- Net cash outflows from operating activities of \$12.0 million. This consisted of a net loss for the year of \$16.5 million, which included \$3.2 million of non-cash depreciation, amortisation and impairment charges, net non-cash finance & foreign exchange charges of \$1.5 million, non-cash stock option charges of \$0.9 million, and other positive working capital movements of \$1.9 million.
- Net cash outflows from investing activities were \$1.4 million which predominantly related to manufacturing cost reduction initiatives, the replacement of IT infrastructure and new analytical equipment for drug discovery.
- Net cash outflows from financing activities were \$1.7 million related to facility finance lease repayments of \$1.4 million and financing agreement repayments of \$0.3 million.



## 6 FINANCIAL STATEMENTS

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

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

Pharmaxis Ltd  
20 Rodborough Road  
Frenchs Forest, NSW Australia 2086

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report which is not part of this financial report.

The financial report was authorised for issue by the directors on 18 August 2016. 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](http://www.pharmaxis.com.au).

**Pharmaxis Ltd**

**Consolidated income statement**

For the year ended 30 June 2016

		2016	2015
	Notes	\$'000	\$'000
<b>Revenue from continuing operations</b>			
Revenue from sale of goods	3a	6,135	5,999
Other revenue	3a	9,413	52,463
Other income	3b	3,472	785
		<hr/>	<hr/>
		<b>19,020</b>	<b>59,247</b>
<b>Other expenses from ordinary activities</b>			
Other expenses from ordinary activities	4		
Employee costs		(10,529)	(14,111)
Administration & corporate		(2,082)	(3,316)
Rent, occupancy & utilities		(1,296)	(1,593)
Clinical trials		(11,955)	(11,315)
Drug development		(2,910)	(1,695)
Sales, marketing & distribution		(1,101)	(1,962)
Safety, medical and regulatory affairs		(1,707)	(1,723)
Manufacturing purchases		(1,928)	(1,737)
Other		(382)	(1,905)
Depreciation & amortisation		(3,028)	(3,406)
Foreign exchange gains & losses		(843)	(395)
Finance costs		2,459	2,696
Impairment expenses		(174)	(277)
		<hr/>	<hr/>
		<b>(35,476)</b>	<b>(40,739)</b>
<b>(Loss) / profit before income tax</b>			
		<b>(16,456)</b>	<b>18,508</b>
Income tax expense	5	(7)	(42)
		<hr/>	<hr/>
<b>(Loss) / profit for the year</b>			
		<b>(16,463)</b>	<b>18,466</b>
<hr/>			
<b>Earnings per share:</b>			
		<b>Cents</b>	<b>Cents</b>
Basic (loss) / earnings per share	28	(5.2)	5.9
Diluted (loss) / earnings per share	28	(5.2)	5.9

*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 2016

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>(Loss) / profit for the financial year</b>	<b>(16,463)</b>	18,466
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	<b>153</b>	141
<b>Other comprehensive income for the year, net of tax</b>	<b>153</b>	141
<b>Total comprehensive (loss) / income for the year</b>	<b>(16,310)</b>	18,607
Total comprehensive (loss) / income for the year is attributable to:		
Owners of Pharmaxis Ltd	<b>(16,310)</b>	18,607

*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 2016

	Notes	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	39,209	54,138
Trade and other receivables	7	4,995	5,827
Inventories	8	2,213	1,575
Total current assets		46,417	61,540
<b>Non-current assets</b>			
Receivables	9	1,297	1,021
Property, plant and equipment	10	17,793	19,634
Intangible assets	11	146	363
Total non-current assets		19,236	21,018
<b>Total assets</b>		<b>65,653</b>	<b>82,558</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	5,022	5,796
Borrowings	13	864	772
Other liabilities	14	4,588	1,070
Provisions	15	538	494
Current tax liabilities		–	16
Total current liabilities		11,012	8,148
<b>Non-current liabilities</b>			
Borrowings	16	9,258	10,121
Other liabilities	17	24,190	27,690
Provisions	18	267	278
Total non-current liabilities		33,715	38,089
<b>Total liabilities</b>		<b>44,727</b>	<b>46,237</b>
<b>Net assets</b>		<b>20,926</b>	<b>36,321</b>
<b>EQUITY</b>			
Contributed equity	19	344,623	344,623
Reserves	20(a)	18,571	17,503
Accumulated losses	20(b)	(342,268)	(325,805)
<b>Total equity</b>		<b>20,926</b>	<b>36,321</b>

*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 2016

	Notes	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
<b>Balance at 30 June 2014</b>		344,623	17,715	(344,271)	18,067
Profit for the year		–	–	18,466	18,466
Other comprehensive income		–	141	–	141
<b>Total comprehensive income / (loss) for the year</b>		–	141	18,466	18,607
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	19(a)	–	–	–	–
Employee share options	20(a)	–	(353)	–	(353)
		–	(353)	–	(353)
<b>Balance at 30 June 2015</b>		<b>344,623</b>	<b>17,503</b>	<b>(325,805)</b>	<b>36,321</b>
Loss for the year		–	–	(16,463)	(16,463)
Other comprehensive income		–	153	–	153
<b>Total comprehensive income / (loss) for the year</b>		–	153	(16,463)	(16,310)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	19(a)	–	–	–	–
Employee share options	20(a)	–	915	–	915
		–	915	–	915
<b>Balance at 30 June 2016</b>		<b>344,623</b>	<b>18,571</b>	<b>(342,268)</b>	<b>20,926</b>

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 2016

	Notes	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		18,854	16,620
Payments to suppliers and employees (inclusive of goods and services tax)		(32,034)	(39,396)
		<b>(13,180)</b>	<b>(22,776)</b>
Sale of drug candidate		–	40,603
Grant receipts from government		–	3,389
Interest received		1,213	721
Income tax paid		(22)	(157)
<b>Net cash (outflow) / inflow from operating activities</b>	27	<b>(11,989)</b>	<b>21,780</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,372)	(244)
Proceeds from disposal of plant and equipment		2	2
Payments for intangible assets		(11)	(22)
<b>Net cash outflow from investing activities</b>		<b>(1,381)</b>	<b>(264)</b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(1,447)	(1,402)
Financing agreement payments		(267)	(389)
<b>Net cash outflow from financing activities</b>		<b>(1,714)</b>	<b>(1,791)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(15,084)</b>	<b>19,725</b>
Cash and cash equivalents at the beginning of the financial year		54,138	34,182
Effects of exchange rate changes on cash and cash equivalents		155	231
<b>Cash and cash equivalents at the end of the financial year</b>	6	<b>39,209</b>	<b>54,138</b>

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

30 June 2016

## 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) *Clinical trial cost reimbursements* – The group recognises revenue in relation to its partnering agreement of Bronchitol in the US for cystic fibrosis with Chiesi Farmaceutici SpA. The revenue recognised in the income statement related to this agreement requires a level of judgement in forecasting the overall costs required to complete the associated clinical trial.
- (ii) *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.
- (iii) *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 2016 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 entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### (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 group's senior management committee.

### (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.

**1. Summary of significant accounting policies (continued)**

*(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.

*(iv) Sale of drug candidates*

Milestone payments received pursuant to a Drug Candidate Asset and Purchase agreement with no further performance obligations on the part of the company are recognised as income when they are receivable under the terms of the contract and their receipt is probable.

*(v) Clinical trial cost reimbursements*

Clinical trial cost reimbursement revenue is recognised in accordance with the stage of completion of the associated clinical trial and when the consideration can be reliably measured and the receipt is probable.

**(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 liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

**(g) Income tax**

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



## 1. Summary of significant accounting policies (continued)

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 \$311 million at 30 June 2016 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 23). 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 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (i) Business combinations

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

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

**1. Summary of significant accounting policies (continued)****(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, term deposits and bank accepted commercial bills, which are subject to an insignificant risk of changes in value.

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

**(l) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement between 30 – 90 days from date of invoice. They are presented as current assets unless collection is not expected for more than twelve months after the reporting date.

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

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

**(m) Inventories**

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

**(n) Property, plant and equipment**

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

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

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

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

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

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

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

**1. Summary of significant accounting policies (continued)**

**(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 three to five 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 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 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 corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

*(iii) Retirement benefit obligations*

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

*(iv) Equity-based payments*

Equity-based compensation benefits are provided to employees via the Pharmaxis Employee Equity Plans. Information relating to these schemes is set out in note 30. 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.

**1. Summary of significant accounting policies (continued)**

*(vi) Termination benefits*

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

**(r) Other liabilities**

*(i) Deferred lease incentive*

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

*(ii) Financing agreement*

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

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

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

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

**(s) Contributed equity**

Ordinary shares are classified as equity.

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

**(t) Earnings per share**

*(i) Basic earnings per share*

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

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(u) Goods and Services Tax (GST)**

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

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

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

**1. Summary of significant accounting policies (continued)**

**(v) Rounding of amounts**

The Company is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, 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 Instrument 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 31 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 2016 reporting periods. The Group has yet to assess the impact of the new lease standard (AASB 16) and the new revenue standard (AASB 15) which are expected to be adopted by the Group for the financial years commencing 1 July 2019 and 1 July 2018 respectively.

**2. Segment information**

**(a) Description of segments**

The group's senior management committee, considers the business from a product development stage perspective and has identified two reportable segments:

1. Bronchitol and Aridol business – covering the ongoing clinical development, manufacture and sale of the Bronchitol and Aridol globally. The committee monitors the performance of these two products collectively.
2. New Drug Development – this segment encompasses the drug discovery and early stage clinical development of the group's new drug candidates.

The corporate head office related costs of the group's business are not regarded as a segment but are disclosed below.

**(b) Segment information provided to the senior management committee**

The segment information provided to the senior management committee for the reportable segments for the year ended 30 June 2016 is as follows:

## 2. Segment information (continued)

	Bronchitol & Aridol	New Drug Development	Corporate	Total
	\$'000	\$'000	\$'000	\$'000
<b>2016</b>				
<b>Segment Revenue</b>				
Sales revenue	6,135	–	–	6,135
Other revenue	8,200	–	–	8,200
Other income	575	2,580	317	3,472
	14,910	2,580	317	17,807
<b>Expenses from ordinary activities</b>				
Employee costs	(5,560)	(1,782)	(2,116)	(9,458)
Administration & corporate	(498)	(139)	(1,342)	(1,979)
Rent, occupancy & utilities	(607)	(78)	(611)	(1,296)
Clinical trials <sup>(1)</sup>	(11,846)	(109)	–	(11,955)
Drug development	–	(2,910)	–	(2,910)
Sales, marketing & distribution	(1,101)	–	–	(1,101)
Safety, medical and regulatory affairs	(1,707)	–	–	(1,707)
Manufacturing purchases	(1,928)	–	–	(1,928)
Other	109	(187)	(236)	(314)
	(23,138)	(5,205)	(4,305)	(32,648)
Adjusted EBITDA	(8,228)	(2,625)	(3,988)	(14,841)
<b>2015</b>				
<b>Segment Revenue</b>				
Sales revenue	5,999	–	–	5,999
Other revenue	11,139	–	–	11,139
Other income	403	40,603	382	41,388
	17,541	40,603	382	58,526
<b>Expenses from ordinary activities</b>				
Employee costs	(9,615)	(1,692)	(2,613)	(13,920)
Administration & corporate	(746)	(96)	(1,442)	(2,284)
Rent, occupancy & utilities	(911)	(81)	(601)	(1,593)
Clinical trials <sup>(1)</sup>	(9,469)	(1,846)	–	(11,315)
Drug development	–	(1,695)	–	(1,695)
Sales, marketing & distribution	(1,962)	–	–	(1,962)
Safety, medical and regulatory affairs	(1,723)	–	–	(1,723)
Manufacturing purchases	(1,737)	–	–	(1,737)
Other	(1,423)	(125)	742	(806)
	(27,586)	(5,535)	(3,914)	(37,035)
Adjusted EBITDA	(10,045)	35,068	(3,532)	21,491

**2. Segment information (continued)**

(1) The clinical trial costs for the year ending 30 June 2016 are split by the following projects in Bronchitol and Aridol: CF303 \$11.2m (2015: 7.5m), CF204 \$0.6m (2015: \$1.9m); and Drug Discovery: PXS-4728A \$0.1m (2015: \$1.8m).

The senior management committee uses the adjusted EBITDA as a measure to assess performance of the segments. This excludes the effects of non-recurring expenditure such as redundancy costs, partnering and financing agreement legal expenses, business development expenses and patent impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments.

A reconciliation of adjusted EBITDA to operating profit / (loss) before income tax is provided as follows:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Adjusted EBITDA	<b>(14,841)</b>	21,491
Interest revenue	<b>1,213</b>	721
Finance costs		
Financing agreement credits <sup>(1) &amp; (2)</sup>	<b>3,135</b>	3,418
Finance lease charges	<b>(676)</b>	(722)
Depreciation and amortisation expense	<b>(3,028)</b>	(3,406)
Impairment of patents and other assets	<b>(174)</b>	(277)
Redundancy expenses	<b>(156)</b>	(544)
Non recurring legal and business development expenses	<b>(103)</b>	(1,032)
Share-based payment expenses	<b>(915)</b>	353
Unrealised (gains) on financial instruments	<b>(911)</b>	(1,494)
<b>(Loss) / profit before income tax</b>	<b>(16,456)</b>	18,508

(1) The Company reviewed and amended the estimated cash flows of the NovaQuest liability as per the financing agreement accounting policy note 1 (a) (ii), as a result the change in the NovaQuest liability has been reflected in the income statement for the year ended 30 June 2016.

(2) The Company entered an Amended and Restated Financing Agreement with NovaQuest in the prior year ended 30 June 2015. As a consequence of the new financial terms and reduced investment balance, the financial liability required restatement which resulted in a \$3.4 million credit to the income statement for the year ended 30 June 2015.

**3a. Revenue**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<i>Sales revenue</i>		
Sale of goods	<b>6,135</b>	5,999
<i>Other revenue</i>		
Sale of drug candidate	–	40,603
Clinical trial cost reimbursements	<b>8,200</b>	11,139
Interest	<b>1,213</b>	721
	<b>9,413</b>	52,463

**3b. Other income**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
R&D Tax Incentive income	<b>2,100</b>	164
Drug Discovery service fees	<b>925</b>	–
Other	<b>447</b>	621
	<b>3,472</b>	785

**4. Expenses**

<b>Profit / (loss) before income tax includes the following specific expenses:</b>	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<i>Depreciation (note 10)</i>		
Plant and equipment	<b>1,464</b>	1,340
Computer equipment	<b>71</b>	77
Leased building and improvements	<b>1,676</b>	1,588
Total depreciation	<b>3,211</b>	3,005
<i>Amortisation &amp; impairment (note 11)</i>		
Patents	<b>201</b>	883
Trademarks	<b>5</b>	6
Software	<b>22</b>	28
Total amortisation	<b>228</b>	917
Amortisation of deferred lease incentive	<b>(239)</b>	(239)
<i>Impairment losses – financial assets</i>		
Trade receivables	<b>75</b>	(54)
Net loss on disposal of plant and equipment	–	60
Rental expense relating to operating leases	<b>745</b>	921
Net foreign exchange losses	<b>843</b>	395
<i>Employee salaries and benefits expense</i>		
Defined contribution superannuation	<b>613</b>	845
Share-based payment expenses	<b>915</b>	(353)
Contractor benefits expenses	<b>655</b>	1,622
Other employee benefits expenses	<b>8,346</b>	11,997



## Notes to the financial statements

30 June 2016

## 5. Income tax expense

	2016	2015
	\$'000	\$'000
<b>(a) Numerical reconciliation of prima facie tax expense to actual income tax expense</b>		
(Loss) / profit before income tax expense	<b>(16,456)</b>	18,508
Tax at the Australian tax rate 30% (2015:30%)	<b>(4,937)</b>	5,552
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	<b>275</b>	(106)
Government research tax incentives	<b>807</b>	(457)
Sundry items	<b>57</b>	99
	<b>(3,798)</b>	5,088
(Under)/Over provision in prior years	–	(56)
Difference in overseas tax rates	–	(1)
Total	<b>(3,798)</b>	5,031
Deferred tax benefits (utilised) / not recognised	<b>3,805</b>	(4,989)
Income tax expense	<b>7</b>	42
This represents current income tax expense.		

**(b) Tax losses**

Unused tax losses for which no deferred tax asset has been recognised	<b>310,785</b>	310,117
Potential tax benefit at 30%	<b>93,236</b>	93,035

All unused tax losses were incurred by the parent entity.

## 6. Current assets – Cash and cash equivalents

	2016	2015
	\$'000	\$'000
Cash at bank and in hand	<b>474</b>	1,692
Deposits at call	<b>3,553</b>	7,329
Term deposits	<b>35,182</b>	45,117
	<b>39,209</b>	54,138

**Interest rate risk exposure**

The Group's exposure to interest rate risk is discussed in note 29. 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

	2016	2015
	\$'000	\$'000
Trade receivables	<b>2,781</b>	4,057
Provision for impairment of receivables (note (b))	<b>(128)</b>	(62)
	<b>2,653</b>	3,995
R&D Tax Incentive receivable	<b>2,100</b>	–
Prepayments (note (c))	<b>146</b>	92
Tax related receivables	<b>96</b>	247
Other receivables (note (d))	–	1,493
	<b>4,995</b>	5,827

## Notes to the financial statements

30 June 2016

**7. Current assets – Trade and other receivables (continued)****(a) Past due but not impaired**

As of 30 June 2016, trade receivables of \$90,666 (2015: \$113,292) 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:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Up to 1 month	<b>84</b>	84
1 to 2 months	<b>2</b>	28
Over 2 months	<b>5</b>	1
	<b>91</b>	113

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 2016 trade receivables of \$127,774 (2015: \$62,285) were impaired.

**(c) Prepayments**

Prepayments relate to insurance premiums and operating lease rent paid in advance.

**(d) Other receivables**

Other receivables represented cash held at bank to cover bank guarantee facilities related to corporate credit card and local payment clearing house facilities and upfront contractual advances to third parties that were settled during the year ended 30 June 2016.

**(e) 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 29.

**(f) 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 29 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**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Raw materials - at cost	<b>879</b>	646
Work-in-progress - at cost	<b>349</b>	371
Finished goods - at cost	<b>985</b>	558
	<b>2,213</b>	1,575

**9. Non-current assets – Receivables**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Other receivables (note (a))	<b>1,297</b>	1,021

**(a) Other receivables**

Other receivables primarily represents cash held at bank to cover bank guarantee facilities related to finance and operating lease commitments.

**(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 29.

## 10. Non-current assets – Property, plant and equipment

	Plant and equipment	Computer equipment	Leased building and improvements	Total
	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2014</b>				
Cost	14,515	959	22,855	38,329
Accumulated depreciation and impairment	(7,161)	(787)	(7,933)	(15,881)
Net book amount	7,354	172	14,922	22,448
<b>Year ended 30 June 2015</b>				
Opening net book amount	7,354	172	14,922	22,448
Exchange differences	3	5	1	9
Additions	231	13	–	244
Disposals	(20)	(37)	(5)	(62)
Depreciation charge	(1,340)	(77)	(1,588)	(3,005)
Closing net book amount	6,228	76	13,330	19,634
<b>At 30 June 2015</b>				
Cost	14,695	679	22,843	38,217
Accumulated depreciation and impairment	(8,467)	(603)	(9,513)	(18,583)
Net book amount	6,228	76	13,330	19,634
<b>Year ended 30 June 2016</b>				
Opening net book amount	6,228	76	13,330	19,634
Additions	1,045	154	173	1,372
Disposals	–	(2)	–	(2)
Depreciation charge	(1,464)	(71)	(1,676)	(3,211)
Closing net book amount	5,809	157	11,827	17,793
<b>At 30 June 2016</b>				
Cost	15,744	814	23,011	39,569
Accumulated depreciation and impairment	(9,935)	(657)	(11,184)	(21,776)
Net book amount	5,809	157	11,827	17,793

**(a) Leased assets**

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

	2016	2015
	\$'000	\$'000
Cost	13,916	13,916
Accumulated amortisation	(6,620)	(5,693)
Net book amount	7,296	8,223

**11. Non-current assets – Intangible assets**

	Patents \$'000	Trademarks \$'000	Software \$'000	Total \$'000
<b>At 1 July 2014</b>				
Cost	19,005	111	591	19,707
Accumulated amortisation and impairment	(17,889)	(40)	(520)	(18,449)
Net book amount	1,116	71	71	1,258
<b>Year ended 30 June 2015</b>				
Opening net book amount	1,116	71	71	1,258
Additions	22	–	–	22
Disposals	–	–	–	–
Amortisation charge	(606)	(6)	(28)	(640)
Impairment charge	(277)	–	–	(277)
Closing net book amount	255	65	43	363
<b>At 30 June 2015</b>				
Cost	19,027	111	591	19,729
Accumulated amortisation and impairment	(18,772)	(46)	(548)	(19,366)
Net book amount	255	65	43	363
<b>Year ended 30 June 2016</b>				
Opening net book amount	255	65	43	363
Additions	–	–	11	11
Disposals	–	–	–	–
Amortisation charge	(27)	(5)	(22)	(54)
Impairment charge	(174)	–	–	(174)
Closing net book amount	54	60	32	146
<b>At 30 June 2016</b>				
Cost	19,027	111	602	19,740
Accumulated amortisation and impairment	(18,973)	(51)	(570)	(19,595)
Net book amount	54	60	32	146

**12. Current liabilities – Trade and other payables**

	2016 \$'000	2015 \$'000
Trade payables	2,196	2,700
Other payables (note (a))	2,826	3,096
	<b>5,022</b>	5,796

**(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 29.

**13. Current liabilities – Borrowings**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Secured</b>		
Lease liabilities (note 23)	<b>864</b>	772

**(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 29.

**14. Current liabilities – Other liabilities**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Deferred lease incentive	<b>239</b>	239
Financing agreement	<b>601</b>	831
Deferred clinical trial cost reimbursements	<b>3,748</b>	–
	<b>4,588</b>	1,070

Information about the deferred lease incentive, financing agreement and deferred clinical trial cost reimbursements is provided in note 17.

**15. Current liabilities – Provisions**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Employee benefits - long service leave	<b>538</b>	494

**16. Non-current liabilities – Borrowings**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Secured</b>		
Lease liabilities (note 23)	<b>9,258</b>	10,121

**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**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Deferred lease incentive (a)	<b>1,617</b>	1,856
Deferred clinical trial cost reimbursements (b)	–	1,000
Financing agreement (c)	<b>22,573</b>	24,834
	<b>24,190</b>	27,690

(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) Pursuant to the company's agreement with Chiesi Farmaceutici SpA (Chiesi) for the commercialisation of Bronchitol in the US for cystic fibrosis, Chiesi is responsible for funding up to a maximum of US\$22 million of the associated costs from the clinical research organisation managing the clinical trial. According to Australian Accounting Standards (AASB 118 *Revenue*) revenue associated with this agreement shall be recognised by reference to the stage of completion (and estimated completion cost base) of the underlying clinical trial. In compliance with this treatment, as at 30 June 2016 the Company had incurred cumulative reimbursable costs \$22.2 million (2015: \$12.1m) and has booked associated other revenue of \$18.5 million (2015: \$11.1m), resulting in deferred revenue of \$3.7 million (2015: \$1.0m).

## Notes to the financial statements

30 June 2016

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

- (c) On 30 January 2013, the company entered a financing agreement (as subsequently amended on 24 December 2014) with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest agreed to invest US\$20 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 only receive payments based upon the EU and US sales revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU (1 April 2021) and seven years from the launch of Bronchitol in the US. Payments that may become due are determined by reference to EU and US sales revenue bands and corresponding annual payment percentages.

The balance represents the initial investment by NovaQuest of US\$20 million plus accrued finance costs (calculated based on forecast future sales of Bronchitol in the EU and US over the term of the finance agreement) less product net sales payments up to 30 June 2016 in accordance with accounting policy note 1(r)(ii). At 30 June 2016 the forecast future sales of Bronchitol in the EU were revised down resulting in a \$3.1m reduction of the liability recorded as a negative finance cost.

**18. Non-current liabilities – Provisions**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Employee benefits - long service leave	<b>267</b>	278

**19. Contributed equity**

		<b>Consolidated and Parent entity</b>		<b>Consolidated and Parent entity</b>	
		<b>2016</b>	2015	<b>2016</b>	2015
	Notes	<b>Shares</b>	Shares	<b>\$'000</b>	\$'000
<b>Share capital</b> (note (a))					
Ordinary shares	(b),(c)				
Fully paid		317,154,457	314,813,957	<b>344,623</b>	344,623

**Movements in ordinary share capital:**

<b>Details</b>	<b>Number of shares</b>	<b>Issue price (1)</b>	<b>\$'000</b>
Opening balance as at 1 July 2014	309,514,849		344,623
Exercise of employee options	5,299,108	\$ –	–
Employee Share Plan	–	\$ –	–
Closing Balance at 30 June 2015	314,813,957		344,623
Exercise of employee options	2,132,500	\$ –	–
Employee Share Plan	208,000	\$ –	–
Closing Balance at 30 June 2016	317,154,457		344,623

(1) The issue price on exercise of employee options represents an average issue price for the respective financial year.

**(a) Ordinary shares**

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

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

**(b) Equity plans**

Information relating to the Pharmaxis Employee Equity Plans, including details of equity instruments issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, is set out in note 30.

**(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

	2016	2015
	\$'000	\$'000
<b>(a) Reserves</b>		
Share-based payments reserve	18,571	17,656
Foreign currency translation reserve	–	(153)
	<u>18,571</u>	<u>17,503</u>
<i>Share-based payments reserve</i>		
Balance 1 July	17,656	18,009
Equity expense / (credit)	915	(353)
Balance 30 June	<u>18,571</u>	<u>17,656</u>
<i>Foreign currency translation reserve</i>		
Balance 1 July	(153)	(294)
Currency translation on dormant entity recognised in the income statement	153	–
Currency translation differences arising during the year	–	141
Balance 30 June	<u>–</u>	<u>(153)</u>

**(b) Accumulated losses**

Movements in accumulated losses were as follows:

	2016	2015
	\$'000	\$'000
Balance 1 July	(325,805)	(344,271)
Net (loss) / profit for the year	(16,463)	18,466
Balance 30 June	<u>(342,268)</u>	<u>(325,805)</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). The foreign currency translation reserve that was attributable to Pharmaxis Pharmaceuticals Limited was recognised in the income statement for the year ended 30 June 2016 as the company is no longer in operation.

## Notes to the financial statements

30 June 2016

**21. 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:

	<b>2016</b>	2015
	\$	\$
<b>(a) Audit services</b>		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	<b>126,500</b>	143,500
PricewaterhouseCoopers UK firm		
Audit of the financial report of Pharmaxis Pharmaceuticals Limited	<b>14,448</b>	25,313
Total remuneration for audit services	<b>140,928</b>	168,813
<b>(b) Tax services</b>		
PricewaterhouseCoopers Australian firm		
Tax compliance services	<b>33,675</b>	47,000
International tax consulting and other tax advice	<b>35,500</b>	61,197
	<b>69,175</b>	108,197
Other PricewaterhouseCoopers firms		
Tax compliance services	<b>40,607</b>	42,343
Total remuneration for tax services	<b>109,782</b>	150,540

**22. Contingent liabilities**

The Group had contingent liabilities at 30 June 2016 in respect of:

*Guarantees*

The Group's bankers have issued bank guarantees secured by deposits at the bank for which no provision has been made in the accounts. The Group at 30 June 2016 had a total deposits of \$1.3 million (2015: \$1.8 million) covering a rental bond, corporate credit card and payment clearing house facilities, and a UK Customs Duty Deferment facility.



## Notes to the financial statements

30 June 2016

## 23. Commitments

**(a) Capital Commitments**

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<i>Plant and equipment</i>		
Payable: Within one year	<b>34</b>	130

**(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 nine years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	<b>762</b>	740
Later than one year but not later than five years	<b>3,237</b>	3,154
Later than 5 years	<b>1,810</b>	2,654
	<b>5,809</b>	6,548

*(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 23 (b) (i)) was \$0.4 million. Both components increase each year for the term of the agreement by 3.25%.

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<i>Commitments in relation to finance leases are payable as follows:</i>		
Within one year	<b>1,502</b>	1,455
Later than one year but not later than five years	<b>6,514</b>	6,309
Later than five years	<b>4,986</b>	6,849
Minimum lease payments	<b>13,002</b>	14,613
Future finance charges	<b>(2,880)</b>	(3,720)
Total lease liabilities	<b>10,122</b>	10,893
Current (note 13)	<b>864</b>	772
Non-current (note 16)	<b>9,258</b>	10,121
	<b>10,122</b>	10,893

*(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.

**Pharmaxis Ltd****Notes to the financial statements**

30 June 2016

**24. 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 25.

**(c) Key management personnel compensation**

	<b>2016</b>	2015
	\$	\$
Short-term employee benefits	<b>2,003,686</b>	2,947,332
Post-employment benefits	<b>146,374</b>	168,177
Leave entitlement benefits	<b>43,090</b>	(48,594)
Share-based payments	<b>627,338</b>	325,393
	<b>2,820,488</b>	3,392,308

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

**25. 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):

<b>Name of entity</b>	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding</b>	
			<b>2016</b>	2015
			%	%
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	<b>100</b>	100
Pharmaxis, Inc.	United States	Ordinary	<b>100</b>	100
Topigen Pharmaceuticals Inc.	Canada	Ordinary	<b>100</b>	100
Technology Innovation Limited	United Kingdom	Ordinary	<b>100</b>	100

**26. Events occurring after the balance sheet date**

No matter or circumstance has arisen since 30 June 2016 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.

## Notes to the financial statements

30 June 2016

**27. Reconciliation of profit / (loss) after income tax to net cash inflows / (outflows) from operating activities**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
(Loss) / profit for the year	<b>(16,463)</b>	18,466
Depreciation of property, plant & equipment	<b>3,211</b>	3,005
Amortisation & impairment of intangibles	<b>228</b>	917
Amortisation of lease incentive	<b>(239)</b>	(239)
Impairment losses – financial assets		
Trade receivables	<b>64</b>	(12)
Finance charges	<b>(2,459)</b>	(2,696)
Financing agreement unrealised foreign exchange losses	<b>911</b>	1,605
Non-cash share-based payments (credit) / expense	<b>915</b>	(353)
Net loss on disposal of non-current assets	<b>–</b>	60
Change in operating assets and liabilities		
Decrease / (increase) in trade receivables	<b>1,276</b>	(2,927)
(Increase) / decrease in inventories	<b>(638)</b>	575
(Increase) / decrease in other operating assets	<b>(786)</b>	2,800
(Decrease) / increase in trade payables	<b>(504)</b>	924
Increase in other operating liabilities	<b>2,462</b>	6
Increase / (decrease) in other provisions	<b>33</b>	(351)
Net cash (outflow) / inflow from operating activities	<b>(11,989)</b>	21,780

**28. Earnings per share**

	<b>2016</b>	2015
	<b>Cents</b>	Cents
<b>(a) Basic earnings per share</b>		
(Loss) / profit attributable to the ordinary equity holders of the company	<b>(5.2)</b>	5.9
<b>(b) Diluted earnings per share</b>		
(Loss) / profit attributable to the ordinary equity holders of the company	<b>(5.2)</b>	5.9
<b>(c) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (loss) per share	<b>316,931,465</b>	310,908,814
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	<b>317,154,457</b>	313,882,313

**(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. Details relating to the options are set out in note 30.

## Notes to the financial statements

30 June 2016

## 29. 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:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Financial assets</b>		
Cash and cash equivalents	<b>39,209</b>	54,138
Trade and other receivables (current)	<b>4,995</b>	5,827
Other receivables (non-current)	<b>1,297</b>	1,021
	<b>45,501</b>	60,986
<b>Financial liabilities</b>		
Trade and other payables	<b>5,022</b>	5,796
Borrowings	<b>10,122</b>	10,893
Other liabilities	<b>25,030</b>	27,760
	<b>40,174</b>	44,449

## (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 2016			30 June 2015		
	USD \$'000	GBP \$'000	EUR \$'000	USD \$'000	GBP \$'000	EUR \$'000
Cash and cash equivalents	865	538	769	2,255	405	4,180
Trade receivables	1,893	115	132	2,717	248	587
Other receivables	–	269	20	124	669	779
Trade payables	1,683	70	133	2,132	70	215
Other payables	708	165	106	890	314	223
Other liabilities	23,174	–	–	25,665	–	–

*Group sensitivity*

Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened/strengthened by 5% against the USD with all other variables held constant, the Group's post-tax results for the year would have been \$1,128,000 lower / \$1,021,000 higher (2015: \$1,242,000 higher/\$1,123,000 lower), mainly as a result of foreign exchange gains/losses on translation of USD denominated financial assets/liabilities as detailed in the above table.

## Notes to the financial statements

30 June 2015

**29. Financial risk management (continued)***(i) Cash flow and fair value interest rate risk*

The Group's main interest exposure arises from term deposits held. As at the reporting date, the Group had the following cash profile:

	30 June 2016		30 June 2015	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Cash at bank & deposits at call	0.0	4,027	0.00	9,021
Term deposits	2.77	35,182	2.89	45,117
Other receivables	1.50	1,297	0.99	2,514

*Group sensitivity*

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2016, if interest rates had changed by +/- 50 basis points from the year-end rates with all other variables held constant, post-tax results for the year would have been \$182,000 lower/higher (2015 – change of 50 bps: \$283,000 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 'A-2' and a long term credit rating of 'A+' are accepted. Credit risk on term deposits is further managed by spreading a minimum of 50% of the investment portfolio across the four major Australian banks (with a short term rating of A1+).

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:

	2016	2015
	\$'000	\$'000
<b>Cash and cash equivalents</b>		
A1+	29,617	42,372
A-1	5,969	7,739
A-2	3,606	4,010
Not rated	17	17
	<b>39,209</b>	<b>54,138</b>
<b>Trade receivables</b>		
Not rated	2,653	3,995
<b>Other receivables</b>		
AA-	30	30
A+	1,267	1,820
Not rated	–	664
	<b>1,297</b>	<b>2,514</b>

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.

## Notes to the financial statements

30 June 2016

## 29. 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
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Group - at 30 June 2016</b>						
Non-interest bearing	9,009	239	716	662	10,626	10,626
Fixed rate	1,503	1,551	4,963	5,142	13,159	10,121
<b>Total non-derivatives</b>	<b>10,512</b>	<b>1,790</b>	<b>5,679</b>	<b>5,804</b>	<b>23,785</b>	<b>20,747</b>
<b>Group - at 30 June 2015</b>						
Non-interest bearing	6,035	1,239	716	901	8,891	8,891
Fixed rate	1,455	1,503	4,806	6,849	14,613	10,893
<b>Total non-derivatives</b>	<b>7,490</b>	<b>2,742</b>	<b>5,522</b>	<b>7,750</b>	<b>23,504</b>	<b>19,784</b>

Included on the balance sheet is a financial liability related to a financing agreement of \$23,174,000 (2015: \$25,665,000). This liability is accounted for in accordance with Accounting Policy note 1(r)(ii) and the term of the agreement and forecast product related payment 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.

## 30. 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.

## Notes to the financial statements

30 June 2016

**30. Share-based payments (continued)**

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

	<b>2016</b>	2015
Number of options exercised during the year	–	–
Weighted average Share price at exercise date of options exercised during the year	\$ –	\$ –

There were 621,250 vested options at 30 June 2016 (4,085,625 at 30 June 2015). 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
<b>Consolidated – 2016</b>								
5 Aug 2005	4 Aug 2015	\$1.6500	472,500	–	–	472,500	–	–
17 Oct 2005	16 Oct 2015	\$2.6320	30,000	–	–	30,000	–	–
13 Feb 2006	12 Feb 2016	\$2.0540	10,000	–	–	10,000	–	–
1 June 2006	31 May 2016	\$1.8940	7,500	–	–	7,500	–	–
15 Aug 2006	14 Aug 2016	\$1.7770	439,750	–	–	421,000	18,750	18,750
26 Oct 2006	14 Aug 2016	\$1.7770	20,000	–	–	–	20,000	20,000
20 Sept 2006	19 Sept 2016	\$1.7518	10,000	–	–	5,000	5,000	5,000
14 Dec 2006	13 Dec 2016	\$2.9310	15,000	–	–	–	15,000	15,000
18 Jun 2007	17 Jun 2017	\$3.1755	102,500	–	–	–	102,500	102,500
10 Aug 2007	9 Aug 2017	\$3.2490	1,033,500	–	–	1,016,500	17,000	17,000
5 Nov 2007	14 Nov 2016	\$3.0858	200,000	–	–	200,000	–	–
6 Nov 2007	5 Nov 2017	\$4.1500	40,000	–	–	–	40,000	40,000
8 Feb 2008	7 Feb 2018	\$3.1266	3,000	–	–	–	3,000	3,000
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	777,500	–	–	677,000	100,500	100,500
23 Oct 2008	22 Oct 2018	\$1.4660	15,000	–	–	12,500	2,500	2,500
11 Dec 2008	10 Dec 2018	\$1.0207	5,000	–	–	–	5,000	5,000
5 Feb 2009	4 Feb 2019	\$1.1980	20,000	–	–	20,000	–	–
23 Jun 2009	22 Jun 2019	\$2.4098	678,875	–	–	592,375	86,500	86,500
Total			4,085,625	–	–	3,464,375	621,250	621,250
Average exercise price			\$2.335	–	–	\$2.360	\$1.728	\$1.728

## Notes to the financial statements

30 June 2016

## 30. 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
<b>Consolidated – 2015</b>								
2 Feb 2005	1 Feb 2015	\$0.6940	40,000	–	–	40,000	–	–
12 May 2005	11 May 2015	\$1.0070	290,000	–	–	290,000	–	–
5 Aug 2005	4 Aug 2015	\$1.6500	642,500	–	–	170,000	472,500	472,500
17 Oct 2005	16 Oct 2015	\$2.6320	30,000	–	–	–	30,000	30,000
13 Feb 2006	12 Feb 2016	\$2.0540	10,000	–	–	–	10,000	10,000
1 June 2006	31 May 2016	\$1.8940	37,500	–	–	30,000	7,500	7,500
15 Aug 2006	14 Aug 2016	\$1.7770	541,250	–	–	101,500	439,750	439,750
26 Oct 2006	14 Aug 2016	\$1.7770	170,000	–	–	150,000	20,000	20,000
20 Sept 2006	19 Sept 2016	\$1.7518	10,000	–	–	–	10,000	10,000
14 Dec 2006	13 Dec 2016	\$2.9310	25,000	–	–	10,000	15,000	15,000
18 Jun 2007	17 Jun 2017	\$3.1755	102,500	–	–	–	102,500	102,500
10 Aug 2007	9 Aug 2017	\$3.2490	1,442,500	–	–	409,000	1,033,500	1,033,500
5 Nov 2007	9 Aug 2017	\$3.2490	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	–	–	450,000	40,000	40,000
8 Feb 2008	7 Feb 2018	\$3.1266	3,000	–	–	–	3,000	3,000
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	1,064,500	–	–	287,000	777,500	777,500
23 Oct 2008	11 Aug 2018	\$1.6770	200,000	–	–	200,000	–	–
23 Oct 2008	22 Oct 2018	\$1.4660	60,000	–	–	45,000	15,000	15,000
11 Dec 2008	10 Dec 2018	\$1.0207	5,000	–	–	–	5,000	5,000
5 Feb 2009	4 Feb 2019	\$1.1980	207,500	–	–	187,500	20,000	20,000
23 Apr 2009	22 Apr 2019	\$1.8174	3,750	–	–	3,750	–	–
23 Jun 2009	22 Jun 2019	\$2.4098	1,084,125	–	–	405,250	678,875	678,875
21 Oct 2009	22 Jun 2019	\$2.4098	200,000	–	–	200,000	–	–
Total			7,214,625	–	–	3,129,000	4,085,625	4,085,625
Average exercise price			\$2.347	\$–	\$–	\$2.362	\$2.335	\$2.335

*Fair value of options granted*

There were no market exercise price options granted during the year ended 30 June 2016.



30 June 2016

**30. Share-based payments (continued)****(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:

- Performance Rights are granted under the Pharmaxis Employee Option Plan ("EOP"), initially approved by shareholders in 1999.
- 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 to vest 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 instalments. Thirty percent on 31<sup>st</sup> January 2014 (no performance criteria), thirty five percent on 31<sup>st</sup> July 2014 and the remainder on 31<sup>st</sup> July 2015. The last two vesting dates are subject to achievement of performance criteria. The performance rights issued in 2016 have various vesting dates with 37% vesting on 30 June 2016, 38% on 30 June 2017 and 25% on 30 June 2018.
- 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.
  - for performance rights granted in 2016 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 1,656,000 vested performance rights at 30 June 2016 (735,887 at 30 June 2015). 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
<b>Consolidated 2016</b>								
7 Sept 2010	6 Sept 2020	\$–	8,000	–	8,000	–	–	–
20 Oct 2010	6 Sept 2020	\$–	29,000	–	12,000	–	17,000	17,000
15 Nov 2010	14 Nov 2020	\$–	9,000	–	9,000	–	–	–
29 Jun 2012	28 Jun 2022	\$–	435,000	–	203,000	–	232,000	232,000
18 Oct 2012	17 Oct 2022	\$–	30,000	–	–	–	30,000	30,000
7 Jun 2013	6 Jun 2023	\$–	1,761,637	–	1,200,500	–	561,137	561,137
29 Nov 2013	6 Jun 2023	\$–	700,000	–	700,000	–	–	–
31 Jul 2015	30 Jun 2025	\$–	–	4,384,000	–	60,000	4,324,000	1,390,000
20 Nov 2015	30 Jun 2025	\$–	–	1,626,000	–	–	1,626,000	815,000
<b>Total</b>			<b>2,972,639</b>	<b>6,010,000</b>	<b>2,132,500</b>	<b>60,000</b>	<b>6,790,137</b>	<b>1,656,000</b>

## Notes to the financial statements

30 June 2016

## 30. 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
<b>Consolidated 2015</b>								
7 Sept 2010	6 Sept 2020	\$ –	378,000	–	353,000	17,000	8,000	8,000
20 Oct 2010	6 Sept 2020	\$ –	36,000	–	7,000	–	29,000	29,000
15 Nov 2010	14 Nov 2020	\$ –	9,000	–	–	–	9,000	9,000
29 Jun 2012	28 Jun 2022	\$ –	2,003,000	–	1,043,000	525,000	435,000	435,000
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	\$ –	7,291,500	–	2,777,148	2,752,715	1,761,637	254,887
29 Nov 2013	6 Jun 2023	\$ –	2,000,000	–	915,000	385,000	700,000	–
Total			11,947,500	–	5,295,148	3,679,713	2,972,639	735,887

There were 60,000 performance rights forfeited during 2016 (2015: 3,679,713). The weighted average remaining contractual life of performance rights outstanding at the end of the period was 6.86 years (2015 – 7.75 years).

*Fair value of performance rights granted*

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2016 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 2016				Year ended 30 June 2015			
Grant date	No. of options granted	Exercise Price	Share Price	Grant date	No. of options granted	Exercise Price	Share Price
31 Jul 2015	4,384,000	–	\$0.225	Nil	–	\$–	–
20 Nov 2015	1,626,000	–	\$0.230				

**(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:

	2016	2015
Number of shares issued under the plan to participating employees	208,000	–

**(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 (2015: Nil) vested options at 30 June 2016. 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
<b>Consolidated - 2016</b>								
10 Aug 2012	9 Aug 2022	\$ –	860	–	–	860	–	–
Total			860	–	–	860	–	–

## Notes to the financial statements

30 June 2016

## 30. 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
<b>Consolidated - 2015</b>								
24 Sept 2010	23 Sept 2020	\$ –	2,400	–	960	1,440	–	–
30 Aug 2011	29 Aug 2021	\$ –	11,000	–	3,000	8,000	–	–
10 Aug 2012	9 Aug 2022	\$ –	12,900	–	–	12,040	860	–
1 Nov 2013	31 Oct 2023	\$ –	84,000	–	–	84,000	–	–
<b>Total</b>			<b>110,300</b>	<b>–</b>	<b>3,960</b>	<b>105,480</b>	<b>860</b>	<b>–</b>

There were 860 International ZEPO's forfeited during 2016 (105,480 International ZEPO's during 2015). The weighted average remaining contractual life of International ZEPO's outstanding at the end of the period was nil (2015 – 7.12 years).

*Fair value of International ZEPO's granted*

There were no International ZEPO's outstanding as at 30 June 2016.

**(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:

	2016 \$'000	2015 \$'000
Equity instruments issued under employee equity plans	915	(353)

## 31. Parent entity financial information

**(a) Summary financial information**

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

	2016 \$'000	2015 \$'000
<b>Balance sheet</b>		
Current assets	46,417	59,556
Total assets	65,653	81,238
Current liabilities	11,012	8,171
Total liabilities	44,727	46,260
<i>Shareholders' equity</i>		
Issued capital	344,623	344,623
Share based payments reserve	18,571	17,656
Accumulated losses	(342,268)	(327,301)
	<b>20,926</b>	<b>34,978</b>
<b>(Loss) / profit for the year</b>	<b>(14,967)</b>	<b>18,382</b>
<b>Total comprehensive income</b>	<b>(14,967)</b>	<b>18,382</b>

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

As at 30 June 2016, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$34,000 (30 June 2015 - \$130,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

## 6.2 DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 23 to 57 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

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

A handwritten signature in black ink that reads "Gary Phillips". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Gary J Phillips  
Director  
Sydney  
18 August 2016



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

### *Report on the financial report*

We have audited the accompanying financial report of Pharmaxis Ltd (the company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Pharmaxis Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

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

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

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

### *Independence*

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

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### *Auditor's opinion*

In our opinion:

- (a) the financial report of Pharmaxis Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 7 to 17 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Pharmaxis Ltd for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Eddie Wilkie  
Partner

Sydney  
18 August 2016

## 7 SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 15 September 2016.

### A. Distribution of equity securities

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

Class of equity security Ordinary shares	Shares	Restricted Shares	Options	Performance Rights
1-1000	360	–	–	–
1,001 – 5,000	1,654	5	10	–
5,001 – 10,000	962	11	7	–
10,001 – 100,000	1,743	42	6	8
100,001 and over	236	–	2	24
	4,955	58	25	32

There were 544 holders of less than a marketable parcel of ordinary shares.

### B. Equity security holders

*Twenty largest quoted equity security holders*

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

	Ordinary Shares	
	Number Held	Percentage of issued shares
Citicorp Nominees Pty Limited	102,164,244	32.1
National Nominees Limited	25,887,920	8.2
HSBC Custody Nominees (Australia) Limited	21,177,129	6.7
J P Morgan Nominees Australia Limited	15,006,953	4.7
TJ Huynh Pty Ltd	4,000,000	1.3
Moggs Creek Pty Ltd (superannuation Fund a/c)	2,646,091	0.8
George Engineering Pty Ltd (PG Super Fund a/c)	2,500,000	0.8
Pakasoluto Pty Limited (Barkl Family Super Fund a/c)	2,086,838	0.7
Mr Gary Jonathan Phillips	1,805,000	0.6
Simgon Pty Ltd (RK Super Fund a/c)	1,750,000	0.6
Alpha Matilda Trading Pty Ltd (Alpha Matilda Superfund a/c)	1,501,917	0.5
David Newnham Super Pty Ltd (David Newnham Superfund a/c)	1,500,000	0.5
Mr Yingkai Li	1,380,000	0.4
Mr Marco Andrea Negro	1,200,000	0.4
Mr Brian Tully & Mrs Margaret Tully (Superannuation Fund a/c)	1,145,500	0.4
Mutual Trust Pty Ltd	1,135,000	0.4
Kilcare Holdings Pty Ltd (Kilcare a/c)	1,104,413	0.4
Capital Regional et Cooperatif Desjardins	1,053,867	0.3
Brecus Pty Ltd (Brecus Super Fund a/c)	1,000,000	0.3
Mr Jeffrey Edward Gilbert + Mrs Evelyn Gilbert (Gilbert Family S/F a/c)	1,000,000	0.3
<i>Unquoted equity securities</i>		
	Number Held	Number of Holders
Options issued under the Pharmaxis Ltd Employee Option Plan	582,500	25
Performance rights issued	10,638,137	32

C. Substantial holders

Substantial holders in the Company are set out below:

	<b>Number Held</b>	<b>Percentage</b>
Orbis Global Equity Fund Limited	54,462,974	17.2%
Biotechnology Value Fund, Inc	42,815,729	13.5%
Montoya Investments Limited	19,123,830	6.0%
Australian Ethical Smaller Companies Trust	16,856,240	5.3%

D. Voting rights

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

(a) Ordinary shares

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

(b) Options

No voting rights.



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## 8 CORPORATE DIRECTORY

### Directors

Malcolm McComas – Chairman  
Gary Phillips – Chief Executive Officer  
Simon Buckingham  
William Delaat

### Company Secretary and Chief Financial Officer

David McGarvey

### Registered Office

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

### Incorporation Information

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

### Web Site

www.pharmaxis.com.au

### Legal Advisors

PFM Legal Pty Ltd  
Level 7, 257 Clarence Street  
Sydney NSW 2000, Australia

### Auditor

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

### Bankers

HSBC Bank Australia Ltd  
Westpac Banking Corporation

### Securities Exchange Listings

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

### Share Registry

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

### American Depositary Receipts

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



pharmaxis

**Pharmaxis Ltd**

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AUSTRALIA

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Web: [www.pharmaxis.com.au](http://www.pharmaxis.com.au)