

**Pharmaxis Ltd**  
**Copy of Corporate Governance Statement – 2016**

**Copy of Corporate Governance Statement available on the Pharmaxis corporate website at**

<http://www.pharmaxis.com.au/investor-centre/corporate-governance/>

Effective date: 26 October 2016

## Corporate Governance

Pharmaxis is an Australian company listed on the Australia Securities Exchange ('ASX'). Our American Depository Shares are traded in the over-the-counter market in the US.

Pharmaxis has developed a corporate governance framework ("CGF") 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.

For ease of reference, this section is structured within the context of the ASX Governance Principles.

1. [Lay solid foundations for management and oversight](#)
2. [Structure the Board to add value](#)
3. [Act ethically and responsibly](#)
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6. [Respect the rights of security holders](#)
7. [Recognise and manage risk](#)
8. [Remunerate fairly and responsibly](#)

### **1. Lay solid foundations for management and oversight**

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

#### Recommendation 1.1

- (a) the respective roles and responsibilities of its board and management; and*
- (b) those matters expressly reserved to the board and those delegated to management.*

### **Pharmaxis CGF:**

The board is responsible for:

- approving corporate strategy and business objectives
- monitoring the performance of and implementation of strategy by the senior executives
- appointing the chair
- appointing and when necessary replacing the Chief Executive Officer (“CEO”)
- appointing and when necessary replacing the Chief Financial Officer (“CFO”)
- oversight, through the Chair, of Company Secretary performance regarding functioning of the Board
- ratifying the appointment and removal of senior executives
- approving and monitoring capital management
- approving and monitoring partnering, acquisitions and divestitures
- approving and monitoring operating budgets and major capital expenditures
- ensuring the Company has in place an appropriate and effective process for making timely and balanced disclosures
- ensuring the Company has in place an appropriate risk management framework
- overseeing the integrity of the Company’s accounting and corporate reporting systems, including the external audit
- ensuring the Company has in place appropriate corporate governance policies
- remuneration policy covering directors and senior executives
- defining and monitoring the respective roles of the Board and senior executives
- through its Remuneration and Nomination Committee, approving the process for annually evaluating the performance of senior executives
- issuing shares, options and performance rights; and
- at least annually updating and/or affirming the allocation of roles and responsibilities described above.

The CEO and other senior executives are responsible for:

- developing corporate strategy, performance objectives, business plans and budgets for review and approval by the Board
- developing appropriate policies and procedures for the management and control of the business
- the implementation of corporate strategy and policy initiatives
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities; and
- the day to day management of the Company's affairs

## **Recommendation 1.2**

### ***A listed entity should:***

- (a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and*
- (b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

**Pharmaxis CGF:**

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director.

Pharmaxis provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

## Recommendation 1.3

*A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.*

**Pharmaxis CGF:**

The Company has written agreements with each of its directors and senior executives.

## Recommendation 1.4

*The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.*

**Pharmaxis CGF:**

The role of Pharmaxis company secretary includes:

- advising the Board and its committees on governance matters
- monitoring that Board and committee policy and procedures are followed
- coordinating the timely completion and dispatch of Board and committee papers
- ensuring that the business at Board and committee meetings is accurately captured in the minutes; and
- helping to organise and facilitate the induction of directors

## Recommendation 1.5

*A listed entity should:*

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;*
- (b) disclose that policy or a summary of it;*
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:*

1. *the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined “senior executive” for these purposes); or*
2. *if the entity is a “relevant employer” under the Workplace Gender Equality Act, the entity’s most recent “Gender Equality Indicators”, as defined in and published under that Act.*

**Pharmaxis CGF:**

A copy of the Pharmaxis Diversity Policy is available [here](#), including diversity objectives.

Pharmaxis gender diversity statistics for the consolidated group are as follows:

Employee Numbers	2016 (1 June)			2015 (2 June)		
	Male	Female	%	Male	Female	%
Non-executive directors	3	-	-	3	-	-
Senior managers <sup>1</sup>	4	1	20%	4	1	20%
Direct reports to senior managers	8	5	38%	8	6	43%
Other employees	28	23	45%	31	20	39%
Total employees <sup>2</sup>	40	29	42%	46	27	37%

**Notes:**

1. Includes Chief Executive Officer and direct reports
2. Total employees equivalent to 64 FTE's
3. Part time employees accounted for 22% of the workforce (19% at 2 June 2015). 93% (2015: 93%) of part time employees are female.

The Company's is not required to report under the *Workplace Gender Equality Act 2012*.

## Recommendation 1.6

*A listed entity should:*

*(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and*

*(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process*

### **Pharmaxis CGF:**

The Remuneration and Nomination Committee is responsible for overseeing the process for evaluating the performance of the Board, Board Committees and individual Directors.

Evaluations were conducted in the current year (2016) in accordance with the process described below.

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

A Board performance survey is used to:

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

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

Board committee performance is assessed using the Board performance survey, separately completed by committee members in relation to their respective committee. Individual committees are then asked to:

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

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

## Recommendation 1.7

*A listed entity should:*

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and*
- (b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process*

### **Pharmaxis CGF:**

The performance of senior executive officers was evaluated in the current year (2016) in accordance with the process described below.

The Remuneration and Nomination Committee is specifically responsible for reviewing the ongoing performance of the Chief Executive Officer (“CEO”) and ensuring there is an appropriate process to review the performance of other senior executive officers (SEO’s) and for setting and approving performance objectives of SEO’s in relation to bonus payments and options. Each year the

Remuneration and Nomination Committee:

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

## 2. Structure the board to add value

*A listed entity should have a board of an appropriate size, composition, skills commitment to enable it to discharge its duties effectively.*

### Recommendation 2.1

*The board of a listed entity should:*

*(a) have a nomination committee which:*

- 1. has at least three members, a majority of whom are independent directors; and*
- 2. is chaired by an independent director,*

**and disclose:**

1. *the charter of the committee;*
2. *the members of the committee; and*
3. *as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

*(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.*

**Pharmaxis CGF:**

Pharmaxis has a Remuneration and Nomination Committee. The combined role is considered appropriate for a company of our size. A copy of the Remuneration and Nomination Committee Charter is available [here](#).

The Remuneration and Nomination Committee consists entirely of independent directors. The chairman of the Remuneration and Nomination Committee is an independent director.

The Remuneration & Nomination Committee consists of:

- Malcolm McComas — Chairman
- Simon Buckingham
- Will Delaat

Details of attendance by individual committee members are available in the Company's annual report.

## Recommendation 2.2

*A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.*

**Pharmaxis CGF:**

The Board seeks to have within its membership directors with a broad range of relevant industry and corporate expertise both nationally and internationally.

The Pharmaxis Board currently includes the following skills:

- Pharmaceutical industry – senior management experience both within Australia and internationally in large pharmaceutical companies
- Pharmaceutical industry – senior management experience in successful international “start up” pharmaceutical companies
- Science and healthcare qualifications

- Sales and marketing management experience
- Small cap company directorships
- Regulatory and pricing approval experience in major international markets and Australia
- Capital markets
- Business development experience and contacts
- International partnering of pharmaceutical products

## Recommendation 2.3

*A listed entity should disclose:*

- (a) the names of the directors considered by the board to be independent directors*
- (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*
- (c) the length of service of each director.*

### **Pharmaxis CGF:**

All Pharmaxis directors, whether independent or not, are required to bring independent judgment to bear on Board decisions.

The Company regards its three non-executive directors, Messrs. Buckingham, Delaat and McComas as independent for the purposes of the ASX Governance Principles. The Board regularly assesses director independence having regard to the criteria outlined in the ASX Governance Principles.

Directors were first appointed to the Board as follows:

- [Malcolm McComas](#) – July 2003, appointed Chairman May 2012
- [Simon Buckingham](#) – July 2012
- [Will Delaat](#) – June 2008

Directors and Board Committees have the right to seek independent professional advice at the Company's expense after prior consultation with the Chairman.

## Recommendation 2.4

*A majority of the board of a listed entity should be independent directors*

### **Pharmaxis CGF:**

The Pharmaxis Board currently consists of four directors, including three non-executive directors, one of which is the non-executive chairman. The three non-executive directors are regarded as being independent.

## Recommendation 2.5

*The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.*

**Pharmaxis CGF:**

The chairman of the Pharmaxis Board is an independent director.

The role of chairman and CEO are exercised by different individuals. The Company's corporate governance framework requires the chairman to be a different individual to the CEO.

## Recommendation 2.6

*A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

**Pharmaxis CGF:**

The Company has a program for inducting new directors.

The Company seeks to appoint directors with the requisite skills and knowledge to perform their role as directors and requires each director to participate in appropriate professional development opportunities to maintain and further develop those skills. Additionally, the Company routinely updates directors with market developments (including regulatory, accounting and legal updates) that may be applicable to their roles.

## 3. Act ethically and responsibly

*A listed entity should act ethically and responsibly*

### Recommendation 3.1

*A listed entity should:*

- (a) have a code of conduct for its directors, senior executives and employees; and*
- (b) disclose that code or a summary of it.*

**Pharmaxis CGF:**

A copy of the Pharmaxis Code of Conduct is available [here](#).

## 4. Safeguard integrity in corporate reporting

*A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting*

### Recommendation 4.1

*The board of a listed entity should:*

*(a) have an audit committee which:*

- 1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and*
- 2. is chaired by an independent director, who is not the chair of the board,*

*and disclose:*

- 1. the charter of the committee,*
- 2. the relevant qualifications and experience of the members of the committee; and*
- 3. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

*(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.*

#### **Pharmaxis CGF:**

Pharmaxis has an audit committee.

The Pharmaxis Audit Committee charter is available [here](#).

The Pharmaxis Audit Committee consists of the three independent directors:

- Will Delaat - Chairman
- Malcolm McComas
- Simon Buckingham

Details of the relevant qualifications and experience of and attendance by individual committee members are available in the Company's annual report.

## Recommendation 4.2

*The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

### **Pharmaxis CGF:**

The Pharmaxis CEO and CFO provide a declaration to the Board complying with 4.2 above in respect to financial statements submitted to the Board for approval.

## Recommendation 4.3

*A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.*

### **Pharmaxis CGF:**

Pharmaxis requires its external auditor to attend the Company's AGM and be available to answer relevant questions of shareholders.

## 5. Make timely and balanced disclosure

*A listed entity should make timely and balanced disclosures of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.*

## Recommendation 5.1

*A listed entity should:*

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and*
- (b) disclose that policy or a summary of it.*

### **Pharmaxis CGF:**

The Pharmaxis Continuous Disclosure and Shareholder Communications Policy is available [here](#).

The Company has a Disclosure Committee to oversee the implementation of the policy.

The Disclosure Committee consists of the:

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

## **6. Respect the rights of shareholders**

*A listed entity should respect the rights of security holders by providing them with appropriate information and facilities to allow them exercise those rights effectively.*

### **Recommendation 6.1**

*A listed entity should provide information about itself and its governance to investors via its website.*

**Pharmaxis CGF:**

The Pharmaxis website contains information about the Company and its governance.

### **Recommendation 6.2**

*A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.*

**Pharmaxis CGF:**

In addition to mandated full year and half year reporting and continuous disclosure obligations, Pharmaxis provides shareholders with interim updates of the Company's progress across all areas of the business to enable shareholders to better assess the overall progress and performance of the Company.

The Company responds to letters, emails, telephone calls and requests for meetings from investors regardless of the size of their shareholding and encourages questions at and in advance of the annual general meeting and any other investor updates.

### **Recommendation 6.3**

*A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.*

**Pharmaxis CGF:**

Pharmaxis holds its shareholder meetings at a CBD location to provide ease of access to the maximum number of shareholders both institutional and retail.

Shareholders are encouraged to submit questions to the Company in advance of the meeting and all such questions received are included in the meeting presentation (together with a response) which is released to the market.

## Recommendation 6.4

*A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

**Pharmaxis CGF:**

The Company encourages shareholders to utilise the electronic communication alternatives available from its share registry.

## 7. Recognise and manage risk

*A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework*

### Recommendation 7.1

*The board of a listed entity should:*

*(a) have a committee or committees to oversee risk, each of which:*

- 1. has at least three members, a majority of whom are independent; and*
- 2. is chaired by an independent director,*

*and disclose:*

- 1. the charter of the committee;*
- 2. the members of the committee; and*
- 3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

*(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.*

**Pharmaxis CGF:**

The Pharmaxis audit committee is responsible to the Board for oversight of material business risks and the Company's risk management framework.

## Recommendation 7.2

*The board or a committee of the board should:*

- (a) Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and*
- (b) Disclose in relation to each reporting period, whether such a review has taken place.*

**Pharmaxis CGF:**

The Audit Committee reviews the Company's risk management framework and risk management statement annually, or more frequently if the Board or Committee considers it necessary.

The 2016 review was undertaken in conjunction with the Committee's review of the Company's 2016 annual financial and directors' reports.

## Recommendation 7.3

*A listed entity should disclose:*

- (a) If it has an internal audit function, how the function is structured and what role it performs; or*
- (b) If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

**Pharmaxis CGF:**

As a small enterprise Pharmaxis does not have an internal audit function. The audit committee, working with management, has responsibility for evaluating and continually improving the effectiveness of the Company's risk management and internal control processes.

## Recommendation 7.4

*A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.*

**Pharmaxis CGF:**

Our Risk Management Statement is available [here](#) and provides an overview of our risk profile including economic, environmental and social sustainability risks, together with management strategies and internal controls.

## 8. Remunerate fairly and responsibly

*A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.*

### Recommendation 8.1

*The board of a listed entity should:*

*(a) have a remuneration committee which:*

- 1. has at least three members, a majority of which are independent directors; and*
- 2. is chaired by an independent director,*

***and disclose:***

- 1. the charter of the committee;*
- 2. the members of the committee; and*
- 3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

*(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.*

#### **Pharmaxis CGF:**

We have a Remuneration and Nomination Committee. A copy of our Remuneration and Nomination Committee Charter is available [here](#).

The Remuneration and Nomination Committee consists entirely of independent directors. The chairman of the Remuneration and Nomination Committee is an independent director.

The Remuneration & Nomination Committee consists of:

- Malcolm McComas — Chairman
- Simon Buckingham
- Will Delaat

Details of attendance by individual committee members are available in the Company's annual report.

## Recommendation 8.2

*A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.*

### **Pharmaxis CGF:**

As non-executive directors assess individual and Company performance, their remuneration does not have any variable incentive component. Only the Executive Director and senior executive Officer remuneration includes a variable component such as the vesting of options or bonus payments linked to the achievement of performance targets.

The cash component of senior executive remuneration includes a fixed and variable component, the latter being dependent upon performance measures that are derived from annual objectives in the Company's business plan. The performance measures underlying the variable component of the chief executive officer's remuneration is approved by and reported annually to the Remuneration and Nomination Committee.

For details of the Company's remuneration policies and practices refer to the Remuneration Report in our most recent [Annual Report](#).

## Recommendation 8.3

*A listed entity which has an equity-based remuneration scheme should:*

- (a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and*
- (b) Disclose that policy or a summary of it.*

### **Pharmaxis CGF:**

Directors, senior executive officers and employees are not permitted to trade in derivatives of our securities.

### **Corporate Governance Documents Available:**

[Pharmaxis Ltd Constitution \(2015\)](#)

[Remuneration and Nomination Committee Charter](#)

[Audit Committee Charter](#)

[Continuous Disclosure and Shareholder Communication Policy](#)

[Share Trading Policy](#)

[Code of Conduct](#)

[Diversity Policy](#)

[Risk Management Statement](#)

[Statutory Reports](#)