

# Corporate Governance Statement

## Principles of Corporate Governance

The Group is firmly committed to business integrity, high ethical values, and professionalism in its activities and operations. As an essential part of this commitment, the Board endorses the highest standards of corporate governance and is accountable to the Company's shareholders.

The role of the Board is to provide strategic leadership to the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews executives' performance. The Board ensures that its obligations to its shareholders and others are understood and met.

## Statement by the Directors on Compliance with the Provisions of the UK Corporate Governance Code

The Company's shares are traded on AIM. The Company has regard to, but does not comply with, the UK Corporate Governance Code and considers the QCA Code and the Investment Association Guidelines. The Directors review the Company's corporate governance procedures on an on-going basis, having regard to the business strategy as well as the size, nature and resources of the Group, to ensure such procedures are appropriate and implemented or to make changes, as deemed appropriate.

## Board Structure

The Group is currently led and controlled by a Board comprising seven Directors: the Non-Executive Chairman, the two Executive Directors, the Senior Independent Non-Executive Director, and three Independent Non-Executive Directors. All Directors are subject to re-election at least once every three years. The Board has a formal schedule of matters reserved to it and usually meets quarterly, with five Board meetings occurring in and from 1 January 2017 through 31 December 2017, not including the Annual General Meeting.

The Board is responsible to shareholders for the proper management of the Group. The differing roles of Executive Directors and Non-Executive Directors are clearly delineated, with both having fiduciary duties towards Realm Therapeutics plc. The Executive Directors are responsible for the operation of the business, whilst the Non-Executive Directors bring objective judgment to bear on Board decisions by constructively challenging management and ensuring that the strategies proposed by the Executive Directors are fully considered.

The Board is responsible for overall Group strategy, approval of major expenditures and consideration of significant financing and corporate structure matters. The Non-Executive Chairman, Mr. Spicer, is responsible for ensuring the efficient and effective working of the Board as well as for implementing the strategy of the Group and ensuring the effectiveness of executive functions. He leads the Board in the determination of the Group's long-term strategy and the achievement of its objectives. The Senior Independent Director, Mr. Birkett, is responsible for assisting the Chairman with Board meeting processes, setting agendas, as needed, presiding at meetings of the Non-Executive Directors at least once per year and meeting with shareholders and understanding their issues and concerns, as needed.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. All Board members have access to advice of the Company Secretary.

## **Performance Evaluation**

The performance of Executive Directors was evaluated by the Remuneration Committee.

## **Internal Control**

The Directors are responsible for the Group's system of internal control and reviewing its effectiveness and confirm that the Board has acknowledged this responsibility. The Directors further confirm that there is an ongoing process for evaluating internal controls and effectiveness as well as identifying, evaluating, and managing the significant risks facing the Group and its subsidiaries. This process was in place during the period from 1 January 2017 to 31 December 2017 and up to the date of approval of the annual report and accounts.

The Group's system of internal control is designed to provide the Directors with reasonable assurance that the Group's assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the internal control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority. The Board receives periodic reports from both the Audit and Remuneration Committees.
- Management is responsible for the identification and evaluation of significant risks and for the design, implementation and monitoring of appropriate internal controls, including financial and computer systems, business operations, and compliance. Management regularly reports to the Board on the key risks inherent in the business and on the way in which these risks are managed.
- There are established procedures for planning, approving, and monitoring large expenditures, including capital expenditures, as well as processes for monitoring the Group's financial performance against approved budgets and forecasts.

During 2017, the Audit Committee has reviewed the effectiveness of the system of internal control as described above. There are no significant issues disclosed in the report and financial statements for the period ended 31 December 2017 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

## **Relations with Shareholders**

The Group values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors, and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

This annual report contains a strategic review set out on page 5. Further, an interim business review is released to the public market and published on the Group's website. With these documents, the Group's press releases and conference calls, the Board seeks to present a balanced and understandable assessment of the Group's position and prospects. The Company's website at [www.realmtx.com](http://www.realmtx.com) also provides information about the Group.

Realm Therapeutics maintains regular contact with institutional shareholders through one-to-one visits and briefings. Contact with major shareholders is principally maintained by the Chief Executive Officer, Chief Financial Officer, Non-Executive Chairman and Senior Independent Director who ensure that shareholder views are communicated to the Board as a whole. Private investors are encouraged to participate in the Annual General Meeting. The Non-Executive Chairman, Chief Executive Officer and Chief Financial Officer will be available to review the results and comment on current business activity at the Annual General Meeting. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer shareholder questions.

The Board believes that appropriate steps have been taken during the year to ensure that the members of the Board, and in particular the Non-Executive Directors, develop an understanding of the issues and concerns of major shareholders about the Group. The Board is provided with brokers/financial advisors feedback from shareholder meetings. The Board believes that these methods are a practical and efficient way both to keep the Non-Executive Chairman and Senior Independent Director in touch with major shareholder opinion on governance and strategy and for the Senior Independent Director to learn the views of major shareholders and to develop a balanced understanding of their issues and concerns. The Senior Independent Director is available to attend meetings with major shareholders, if requested.

## **Board Committees**

### **Audit Committee Statement**

#### *Membership*

From 1 January 2017 through 17 November 2017, the Audit Committee comprised Mr. Birkett (Chairman), Mr. Hegglin and Mr. Martin. Upon Mr. Hegglin's resignation from the Board in November 2017, Mr. Zweifach joined the Audit Committee.

The Board believes the Committee composition is appropriate for the size of the Group, the members are well-qualified for their roles on the Committee and exercise independence in their duties. Mr. Birkett qualified with Deloitte and Touche as an auditor early in his career and has also served as chairman of the Audit Committee of an AIM listed company. Mr. Zweifach has extensive experience with a focus in corporate partnering, business development, public investing and capital raising. In addition, he has been the Managing Director/CFO of Bay City Capital. Mr. Hegglin offered more than 30 years of experience in international finance. He was a partner at TT International, a Hong Kong investment management fund, where he was responsible for its hedge fund and Asia businesses. Mr. Hegglin was previously with Morgan Stanley in Europe and Asia for 24 years.

#### *Committee Meetings*

The Audit Committee held four meetings during 2017.

#### *Responsibilities*

The Audit Committee undertakes its activities in line with an annual pre-determined programme of business based on its terms of reference. Terms of reference for the Committee are available on request from the Company Secretary. The Audit Committee received reports from the Group's external auditors and reviewed the half-yearly and annual results presented to the Board, focusing in particular on accounting policies and areas of management judgement and estimation. The Audit Committee is responsible for monitoring the controls that are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee acts as a forum for discussion of internal control issues, including review of the enterprise risk management programme, and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes.

The Committee advises the Board on the appointment of external auditors and their remuneration for both audit and non-audit work. The Committee meets with the auditor, with and without the presence of management, and discusses the nature and scope of the audit. The Committee is responsible for overseeing the performance, as well as the independence and objectivity of the auditor.

KPMG LLP was appointed the Group's auditor in January 2018, following a tender process. Selection criteria included quality of advice and responsiveness in support of business matters, ability to complete annual audit on a timely basis, reputation, reference feedback, and fees. The Committee has recommended to the Board that KPMG LLP, be recommended to shareholders for re-appointment as the external auditor for the year ended 31 December 2018.

The Committee also advises the Board on the need for an internal audit function. The Committee has concluded that an internal audit function is not appropriate at this time given the current scale and focus of its operations.

## **Remuneration Committee Statement**

### *Membership*

From 1 January 2017 through 17 November 2017, the Remuneration Committee comprised Dr. Gill (Chairman), Dr. Gergel and Mr. Hammond until his resignation from the Board in November 2017.

### *Committee Meetings*

The Committee held three meetings during 2017.

### *Responsibilities*

The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of Executive remuneration. The Committee determines the contract terms, remuneration, and other benefits for Executive Directors including performance related cash and equity bonus schemes and performance targets, retirement plan rights, and other compensation. Terms of reference for the Committee are available on request from the Company Secretary.

The Board determines the remuneration of the Non-Executive Directors.