



## **CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT**

Last Updated: 27 September 2018

### **Overview**

As Chairman of the Board of Directors of Motif Bio plc (**Motif Bio** or the **Company/Group** as the context requires), it is my responsibility to ensure that Motif Bio has both sound corporate governance and an effective Board. As Chairman, my responsibilities include leading the Board effectively, overseeing the Company's corporate governance model, communicating with shareholders, and ensuring that good information flows freely between Executives and Non-Executives in a timely manner.

Motif Bio has decided to adopt the Quoted Companies Alliance Corporate Governance (**QCA Code**) in line with the London Stock Exchange's recent changes to the AIM Rules, requiring all AIM-listed companies to adopt and comply or explain non-compliance with a recognised corporate governance code. This report follows the structure of these guidelines and explains how we have applied the guidance. We will provide annual updates on our compliance with the QCA Code. The Board considers that the Group complies with the QCA Code so far as it is practicable having regard to the size, nature and current stage of development of the Company, and will disclose any areas of non-compliance in the text below.

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe, including a commitment to open and transparent communications with stakeholders. We believe that good corporate governance improves long-term success and performance, whilst simultaneously managing risks and provides an underlying framework of commitment and transparent communications with stakeholders.

Governance matters that have changed in the past year include the resignation of Robert Bertoldi, the change of Company Secretary, Jon Gold's move from Non-Executive Director to Interim CFO, and the implementation of a Board evaluation process. The Board has also adopted a schedule of matters reserved for the Board and a document delineating the responsibilities of the Chair and CEO.

### **QCA Principles**

#### **1. Establish a strategy and business model which promotes long-term value for shareholders**

The Board has concluded that the highest medium and long-term value can be delivered to its shareholders by a focused strategy for the Company: to bring to market novel antibiotics that are designed to be effective against serious and life-threatening infections in hospitalized patients caused by multi-drug resistant bacteria. Motif Bio's business model is stated on page 5 of the 2017 Annual Report, and strategy is explained in detail on pages 5-9. <http://ir.motifbio.com/phoenix.zhtml?c=254416&p=irol-reportsannual>

The Company intends to deliver shareholder returns through both capital appreciation and distribution via dividends. Challenges to delivering capital appreciation include uncertainty in relation to generating further attractive drug candidates, candidates already in development failing



preclinical testing, IP rights not being adequately secured or defended, and the inability to recruit and retain appropriately qualified staff. Other challenges to the execution of the Company's strategy and Business Model are highlighted in the Risk Management section below, and pages 7-8 of the 2017 Annual Report.

## **2. Seek to understand and meet shareholder needs and expectations**

The Group is strongly committed to the maintenance of good investor relations and seeks, wherever possible, to build a relationship of mutual understanding with both its institutional and private client investors. Additionally, we use the Company's website, [www.motifbio.com](http://www.motifbio.com), to communicate with all shareholders by providing effective communications through our Interim and Annual Reports, publicising Regulatory News Service announcements, and releasing other relevant financial and general news. The Executive Directors and Chair seek to meet with shareholders and other investors/potential investors at regular intervals during the year. The Company also provide a shareholder liaison email address, [ir@motifbio.com](mailto:ir@motifbio.com), where all shareholder queries are welcomed.

The Board keeps in mind the proportions of direct, nominee and institutional shareholders, and distributes communications accordingly. The Directors also meet major shareholders regularly within the results cycle. The AGM is regarded as an opportunity to meet, listen and present to shareholders, and shareholders are encouraged to attend. In addition, the Company receives reports from Institutional Shareholder Services (ISS) on corporate governance and general meeting shareholder voting recommendations, and seeks feedback from other key stakeholders, taking action where appropriate.

Information on the Investor Relations section of the Group's website ([www.motifbio.com](http://www.motifbio.com)) is kept updated and contains details of relevant developments, regulatory announcements, financial reports and results presentations.

## **3. Take into account wider stakeholder and social responsibilities and their implications for long-term success**

The Board recognises that the long-term success of the Company is reliant upon the efforts of the employees of the Group and its contractors, suppliers, regulators and other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key resources and relationships. The Company prepares an annual strategic plan and detailed budget which considers a wide range of key resources and stakeholders including consultants, suppliers, potential partners and regulators.

Everyone within the Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation. The Company has eight employees so is in constant contact with same, seeking to provide continual opportunities in which issues can be raised, and allowing for the provision of feedback. This feedback process helps to ensure that new issues and opportunities that arise may be used to further the success of the Group.

The Company also has close ongoing relationships with a broad range of its stakeholders and provides them with the opportunity to raise issues and provide feedback to the Company.



The Group has no significant environmental or community impact in its current stage of development, but will continue to monitor and review for a change in status in line with drug approval and further developments.

**4. Embed effective risk management, considering both opportunities and threats, throughout the organisation**

The Board attaches considerable importance to the Company’s system of internal control and risk management. An ongoing process has been established for identifying, evaluating, and managing the significant risks faced by the Group. The Board regularly reviews this process as part of its review of such risks within its meetings. Where any weaknesses are identified, if appropriate, an action plan is prepared to address the issues and is then implemented.

Risk management is integral to the ability of the Group to deliver on its strategic objectives. The internal controls and risk management system is designed to manage, rather than eliminate the risk of failure to achieve the Company’s strategic objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Whilst the Board oversees and regularly reviews the current risk management and internal control mechanisms, it has also delegated this responsibility to the Audit Committee who shall keep under review the adequacy and effectiveness of the Company’s financial internal controls and risk management systems. At year ends 2016 and 2017 we disclosed that certain control deficiencies in our financial reporting processes constituted material weaknesses. Although we are a small public company, we have implemented and are planning additional changes in our internal control over financial reporting. Though the process to fully resolve these deficiencies will be done over multiple years, we believe that the existing personnel and systems in place at this time provide a balanced level of resources and processes to appropriately meet the needs of the company without creating undue risk. The Company is in the process of adopting a risk register, which will be reviewed regularly by senior management/Audit Committee/the Board. The 2017 Annual Report outlines the key risks to the business, see pages 7-8.

The Board has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems. These continue to evolve as the Group develops and expands. The risk assessment matrix below sets out these risks, categorises, and outlines the controls that are in place. This matrix is updated as changes arise in the nature of risks and the controls that are implemented to mitigate them. The Audit Committee/Board reviews the risk matrix on a regular basis. The following principal risks and controls to mitigate them have been identified:

| Activity  | Risk                                    | Impact  | Control(s)  |
|-----------|---|---|---|
| Financial | Failure to generate additional funding. | Failure to generate additional funding from financial investment (revenues, commercial partners, or investors) may compromise the Group’s ability to execute its business plans or to continue in business. | The Group has successfully engaged with investors to generate significant cash resources which, providing it can raise sufficient additional development capital, are considered sufficient to fund current plans for the clinical development of the Group’s |

|                          |   |  |  |
|--------------------------|---|--|--|
|                          |   |  | lead antibiotic, Iclaprim.   |
| Research and Development | Lack of efficacy, unacceptable effects, insurmountable challenges in conducting studies adequate to support regulatory approvals, as well as practical issues, such as the inability to devise acceptable formulations for products or the inability to manufacture products at acceptable costs. | The Group may not generate further attractive candidates already in development may fail preclinical testing or clinical trials. | The Lead product candidate, Iclaprim, has successfully completed a comprehensive preclinical and clinical development program and the safety and efficacy profile is well understood. Two positive Phase 3 trials in ABSSSI have been completed; the results of which are or will be included in the Group's regulatory applications for marketing approval in the United States and Europe. |
| Commercial and Economic  | The Group's drugs are commercialised but their use and sale are restricted by regulators.   | Unable to generate significant revenues.   | The Group consults with commercial, clinical, and scientific experts to assess the payer and prescriber environment and the potential impact of competing products or changes in the economic landscape pertaining to hospital infections. The Group actively monitors the performance of key competitors in terms of pricing, market share, and prescribing behaviour.                      |
| Financial Risk           | Adequate financial and operational controls.  | Error or fraud, leading to a loss in reputation, business partners and customers.  | The Company has invested and continues to invest in its financial reporting functions to facilitate accurate reporting and management control as it grows.   |

The need for an internal audit function has been reviewed by the Audit Committee, who concluded that this is not currently necessary or practical due to the size of the Company and the day to day control exercised by the Executive Directors. However, the Audit Committee will continue monitor and review the need for an internal audit function. The Board has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems.



The Board regularly reviews the mechanisms of internal control it has implemented, assessing for effectiveness.

**5. Maintain the board as a well-functioning, balanced team led by the Chair**

The Board comprises the CEO, Graham Lumsden, the CFO, Jonathan E. Gold, 1 Non-Independent Non-Executive Director, Richard Morgan and 5 Independent Non-Executives, Zaki Hosny, Craig T. Albanese, Charlotta Ginman, Mary Lake Polan and Bruce A. Williams. Richard Morgan is the Company's Chair. Richard Morgan, as a Director of a significant shareholder and related party, is not considered to be independent. Zaki Hosny, as former CEO of Motif, Inc., a subsidiary of the Company, is considered independent by the Board given the length of time that has elapsed since he performed that function (5 years), and also given the Company's change of strategy through the merger with Nuprim in 2014. The Board considers that it has an appropriate balance of Executive and Non-Executive Directors.

The letters of appointment of all Directors are available for inspection at the Company's registered office during normal business hours. All the Non-Executive Directors are expected to dedicate at least 18 days per annum to the Company. The Executive Directors work on a full time basis for the Company.

Meetings are open and constructive, with every Director participating fully.

The Board meets at least 6 times in the year and a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. In order to be efficient, the Directors meet formally and informally both in person and by telephone. Board and Committee document authors are made aware of proposed monthly deadlines through the calendar of meetings assembled at the beginning of the year. Board papers are collated by the relevant personnel (Chair, Company Secretary, CFO, Committee Chair), compiled into a Board/Committee Pack, and are generally circulated at least one week before meetings, allowing time for full consideration and necessary clarifications before the meetings.

The Directors do not consider traditional financial measures, such as EBIT, to be key performance indicators at this stage of the business. However, the Directors closely monitor the Company's cash position. This information, as well as comprehensive Board Packs, is considered sufficient to provide the Board with high quality information to facilitate proper assessment of the matters requiring a decision or insight.

The Company has Audit, Remuneration and Nomination/Corporate Governance Committees. Terms of reference for the each of the Company's Committees are published on the Group's website. The Committees have the necessary skills and knowledge to discharge their duties effectively.

Directors' conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

**6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**



The Directors have both a breadth and depth of skills and experience to fulfil their roles and deliver the strategy of the company for the benefit of the shareholders over the medium to long-term. The Company believes that the current balance of skills in the Board as a whole, reflects a very broad range of commercial and professional skills. Details of the Directors' experience and areas of expertise are outlined on pages 10-11 of the 2017 Annual Report and on the Company's website. The Non-Executive Directors meet without the presence of the Executive Directors during the year, and also maintain ongoing communications with Executives between formal Board meetings.

Biographical details of the Directors can be found here <https://www.motifbio.com/about/board-of-directors/>

In addition to their general board responsibilities, Directors are encouraged to be involved in specific workshops or meetings, in line with their individual areas of expertise.

The Company has employed the services of Liam O'Donoghue of ONE Advisory Group Limited to act as the Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing its operation, as well as helping the Chairman maintain excellent standards of corporate governance. If required, the Directors are entitled to take independent legal advice and if the Board is informed in advance, the cost of the advice will be reimbursed by the Company.

The Board shall review annually the appropriateness and opportunity for continuing professional development whether formal or informal.

#### **7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

The Board has recently designed and implemented an annual internal Board and Committee evaluation exercise. The exercise is led by the Chairman of the Board. The areas of evaluation covered include Board structure and knowledge, operating effectiveness, operating efficiency, quality of information and ongoing professional development. Individual reviews of Non-Executive Director performance will also be carried out by the Chairman, and the Non-Executive Directors will undertake a review of the performance of the Chairman.

Responses will be received, recorded and circulated in a timely fashion, identifying positive areas and areas for improvement, and the Board will identify steps to ensure it is at fully functioning potential. The results and recommendations that come out of the appraisals for the Directors shall identify the key corporate and financial targets that are relevant to each Director and their personal targets in terms of career development and training. Targets will be addressed during the 2018/19 financial year and will be used to assess the progress of the Board in future evaluation exercises.

The results and recommendations that come out of the appraisals for the Directors shall identify the key corporate and financial targets that are relevant to each Director and their personal targets in terms of career development and training. Progress against previous targets shall also be assessed where relevant.

Succession planning recommendations are made by the Nomination Committee, and in the future will use feedback from the evaluation process to determine and address any weaknesses of the Company. One-third of the Board are subject to re-election at each AGM.



## **8. Promote a corporate culture that is based on ethical values and behaviours**

The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact aspects of the Company as a whole. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long term value to its shareholders, and that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.

A large part of the Group's activities is centred upon what needs to be an open and respectful dialogue with employees, clients and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives. The Board places great importance on this aspect of corporate life and seeks to ensure that this flows through all that the Company does. The Directors consider that at present the Company has an open culture facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge.

The Company has adopted a code for Directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM, and is in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016.

The Company is not looking to implement an employee engagement/satisfaction survey, due to the size, nature and current stage of development of the Company. The Board has decided that, given the small number of employees, resources are best used elsewhere to facilitate good corporate governance and capital appreciation. The Company also maintains close relations with all employees to allow for feedback and support, meaning that ethical values and behaviours are recognised, closely monitored, understood and respected.

## **9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board**

The Board is committed to, and ultimately responsible for, high standards of corporate governance, and has chosen to adopt the QCA Code. We review our corporate governance arrangements regularly and expect to evolve these over time, in line with the Group's growth. The Board delegates responsibilities to Committees and individuals as it sees fit, with the Chairman being responsible for the effectiveness of the Board, and the Executive Directors being accountable for the management of the Company's business and shareholder liaison.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He is also responsible for creating the right Board dynamic and for ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings, and is the primary point of contact for shareholders. The Executive Directors are responsible for the day-to-day running of the business and developing corporate strategy; whilst the Non-Executive Directors are tasked with constructively challenging the decisions of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust. A document outlining the split between the responsibilities of the CEO



and the Chairman can be found here <http://ir.motifbio.com/phoenix.zhtml?c=254416&p=irol-govhighlights>.

The board intends to add a Senior Independent Director (SID) in due course.

The Board has adopted appropriate delegations of authority which set out matters which are reserved to the Board. A schedule of specific matters reserved for the Board can be found here: <http://ir.motifbio.com/phoenix.zhtml?c=254416&p=irol-govhighlights>.

The Board delegates authority to three Committees to assist in meeting its business objectives, and the Committees meet independently of Board meetings.

#### Audit Committee

The Audit Committee has three members, Charlotta Ginman (Chair), Bruce Williams and Craig Albanese. The CFO and external auditors attend meetings by invitation. The Audit Committee is responsible for reviewing the half-year and annual financial statements, interim management statements, preliminary results announcements, and any other formal announcement or presentation relating to the Group's financial performance. The Audit Committee also reviews significant financial returns to regulators and any financial information covered in certain other documents such as announcements of a price sensitive nature.

The Audit Committee oversees the appointment of the external auditor and sets their remuneration (both for audit and non-audit work) and discusses the nature, scope, and results of the audit with the auditors. The Audit Committee reviews the extent of the non-audit services provided by the auditors and reviews with them, their independence and objectivity. The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of the meetings. The Audit Committee shall meet not less than three times a year. In the year ended 31 December 2017, the Audit Committee met six times.

#### Remuneration Committee

The Directors' Remuneration Report and Directors' Remuneration Policy Report is set out on pages 16-30 of the 2017 Annual Report. The Remuneration Committee has three members, Zaki Hosny (Chair), Richard Morgan and Bruce Williams. The members are all Independent Non-Executive Directors with the exception of Richard Morgan. The Board recognises that whilst the QCA Code recommends all members should be independent, the Board considers that the Chair of the Board is best placed when determining individual Director remuneration, due to the oversight of the Board granted throughout the year. For this reason, Richard Morgan remains a member of the Remuneration Committee. Other members of the Board may attend the Committee's meetings at the request of the Committee Chairman.

The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration, and other benefits for each of the Executive Directors, including performance related bonus schemes and pension rights. Further details of the Group's policies on remuneration and service contracts are given in the Directors' Remuneration Report. The Remuneration Committee shall meet not less than three times a year. In the year ended 31 December 2017, the Remuneration Committee met on eleven occasions.

#### Nomination and Corporate Governance Committee



The Nomination and Corporate Governance Committee has two members, Mary Lake Polan (Chair) and Craig Albanese. The Nomination and Corporate Governance Committee monitors the size and composition of the Board of Directors and the other committees and is responsible for identifying suitable candidates to join our Board. It also has delegated responsibility for ensuring compliance with the AIM Rules for Companies, and the timely and accurate disclosure of all information that is required to be disclosed in order to satisfy the Company's legal and regulatory obligations.

The Nomination and Corporate Governance Committee shall meet at least twice per year, and otherwise as necessary to consider proposals for Board appointments and other matters. In the year ended 31 December 2017, the Nomination and Corporate Governance Committee met on one occasion.

Terms of Reference for each of the Committees can be found here: <http://ir.motifbio.com/phoenix.zhtml?c=254416&p=irol-govhighlights>.

In accordance with the Companies Act 2006, the Board complies with: a duty to act within their powers; a duty to promote the success of the Company; a duty to exercise independent judgement; a duty to exercise reasonable care, skill and diligence; a duty to avoid conflicts of interest; a duty not to accept benefits from third parties and a duty to declare any interest in a proposed transaction or arrangement.

The Chair and the Board continue to monitor and evolve the Company's corporate governance structures and processes, and maintain that these will evolve over time, in line with the Company's growth and development.

**10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Board is strongly committed to the maintenance of good investor relations and to having constructive dialogue with its shareholders. The Company intends to have close ongoing relationships with its private shareholders, institutional shareholders and analysts and for them to have the opportunity to discuss issues and provide feedback at meetings with the Company. The Executive Directors and Chair seek to meet with shareholders and other investors/potential investors at regular intervals during the year, and the Company also provides a shareholder liaison email address, where all shareholder queries are welcomed: [ir@motifbio.com](mailto:ir@motifbio.com).

Motif receives reports from ISS, reviews their findings and takes their recommendations in to account when considering governance arrangement. In addition, all shareholders are encouraged to attend the Company's Annual General Meeting. All 2017 AGM resolutions were passed, and the Company's latest AGM results can be found on the Company's investor page. The Board maintains that, if there is a resolution passed at a GM with 20% votes against, the Company will seek to understand the reason for the result and, where appropriate, take suitable action.

A range of Corporate Documents (including all Company announcements, Reports, Notices of AGMs and presentations) is also available to shareholders, investors and the public, and can be found on the Company's website: [www.motifbio.com](http://www.motifbio.com).