Diurnal

The specialty pharmaceutical company targeting patient needs in chronic endocrine diseases

Diurnal Group plc

Annual Report and Accounts 2016

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Highlights

Operational overview

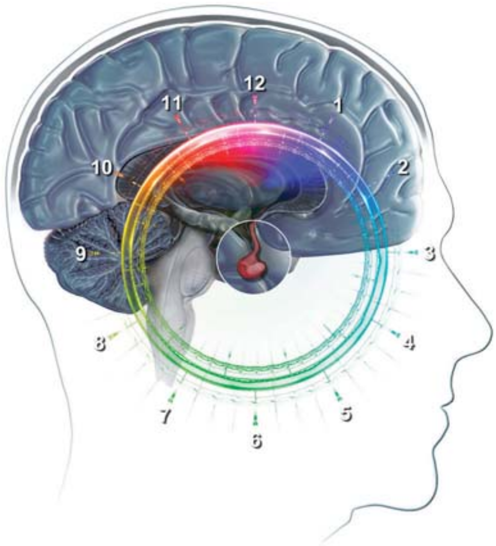
- Primary endpoint met in European pivotal study of Infacort® in paediatric Adrenal Insufficiency.
- First patient treated in the Company's European Phase III trial of Chronocort® in Congenital Adrenal Hyperplasia, following the period end.
- First patients treated in the Company's European open-label safety extension studies of Infacort® in paediatric Adrenal Insufficiency and Chronocort® in Congenital Adrenal Hyperplasia.
- Initial Public Offering on the Alternative Investment Market ("AIM") of the London Stock Exchange in December 2015, raising £30m before expenses via a placing of new ordinary shares and a convertible loan.
- Strengthening of the Board with the appointment of Peter Allen as Non-executive Chairman and John Goddard as Non-executive Director.

Financial overview

- Operating loss of £7.0m (2015 13 months: £3.0m) reflecting investment in increased clinical and development activities together with investment in overheads to support the anticipated growth and development of the business and including £1.5m of one-off, share option related and non-cash expenses.
- Held to maturity financial assets, cash and cash equivalents at 30 June 2016 of £30.1m (2015: £6.1m) following the successful AIM IPO and fundraising.
- Net assets of £25.9m (2015: £6.0m).
- Net cash used in operating activities was £5.1m (2015 13 months: £2.9m).

Chairman's statement

"It is Diurnal's ambition to develop a product franchise that can treat patients with all forms of cortisol deficiency."



I am pleased to provide my inaugural Chairman's statement and the first for Diurnal Group plc as a public company. This financial year has been transformational as we executed our Initial Public Offering (IPO), providing the Group with the capital to accelerate product development to bring our novel products to market. I am excited to be part of Diurnal with its entrepreneurial and patient-centric approach, combined with its international network of experts, which have enabled the development of a balanced late-stage portfolio of prospects and provide a solid platform from which we can confidently build a proprietary endocrinology franchise.

Diurnal aims to develop and commercialise products to address unmet patient needs in chronic endocrine (hormonal) diseases, typically where there is either no licensed medicine or where current treatment does not sufficiently improve the patients' health. Diurnal has identified a number of such needs within the field of endocrinology, which the Group believes represents a multi-billion dollar combined market opportunity. The Group intends to address these market opportunities through the development of its late-stage pipeline, by finalising its commercialisation plans in Europe, to be followed by the US, through development of its early-stage pipeline and, longer-term, through in-licensing and acquisitions.

In December 2015, Diurnal successfully completed an Initial Public Offering (IPO) on the Alternative Investment Market (AIM) of the London Stock Exchange, raising £30m from new and existing, long-term investors. These monies enable the Group to continue to pursue its vision of becoming a world-leading endocrinology speciality pharmaceutical group.

In the near term, funding from the IPO allows Diurnal to maintain the momentum behind its late-stage development programmes for treatments targeting indications of cortisol deficiency. Cortisol is an essential hormone for health in regulating metabolism, growth, fertility and the response to stress. It is Diurnal's ambition to develop a product franchise that can treat patients with all forms of cortisol deficiency. Diurnal anticipates its first market authorisation in Europe towards the end of 2017.

I am pleased with the significant clinical development progress in the Group's late-stage pipeline products during the year, with Chronocort® commencing a pivotal Phase III clinical trial in Europe and Infacort® reporting positive headline data from a pivotal Phase III clinical trial also in Europe. Infacort® has the potential to be the first licensed treatment in Europe for Adrenal Insufficiency (AI) (including Congenital Adrenal Hypoplasia (CAH)) specifically designed for use in children under six years of age. Chronocort® has the potential to be the first product candidate for adults with CAH to mimic the natural cortisol circadian rhythm, therefore improving disease control. In the US, Infacort® and Chronocort® are expected to commence Phase III clinical development in 2017.

During the period, Diurnal enhanced its Board with the appointment of John Goddard as Non-executive Director and Chairman of the Audit Committee. John's extensive financial, accounting, strategic planning and business development experience in the global pharmaceuticals industry will be invaluable as we embark on our next stage of growth.

Diurnal also continues to develop its earlier-stage pipeline, with the Group obtaining the rights to the orphan drug designation for an oligonucleotide therapy for the potential treatment of Cushing's Disease (cortisol excess) in May 2016. In addition, Diurnal's oral native testosterone product is scheduled to enter human clinical trials imminently.

The Board will continue to monitor the potential effects of the 23 June 2016 UK referendum result on the Group's business and in particular any impact on the regulatory framework for pharmaceutical product development, approval and commercialisation.

I would like to thank our employees for their continued support and hard work in driving the Company's progress towards commercialising the Group's first products. Despite the distraction of the IPO, the Group's late-stage products, Infacort® and Chronocort®, continued to progress according to plan in Europe and we are working with the FDA to design the optimal clinical pathway towards regulatory approval in the US. I would also like to thank my fellow Board members for the progress made this year in formulating the foundations of a strategy that will ensure continued and sustainable growth from our pipeline. Finally, I would like to thank our shareholders for their continued support as Diurnal aims to make a real difference to patients without effective treatment options for chronic endocrine diseases.

Peter Allen
Chairman
11 October 2016

Our Vision

To become the world's leading endocrinology specialty pharma company.

Our strategy

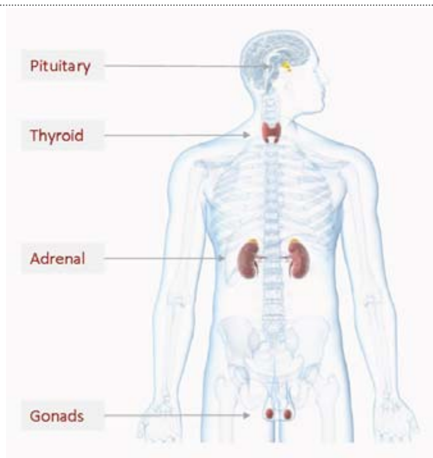
To complete the development of our late-stage "Adrenal Franchise" and to commercialise these products in Europe and the US.

- Complete Phase III trials for Infacort® and Chronocort® in both Europe and the US.
- Drive revenues from Infacort® and Chronocort® in Europe (approval of both products anticipated in Europe by Q4 2018 and in the US by Q4 2021).
- Initiate commercialisation of Infacort® in Europe and the US.
- Expand the Group's commercial capability with Chronocort® in Europe and the US.
- License to rest of world.

Longer-term, to continue our product portfolio expansion and diversification through pipeline R&D, in-licensing and acquisitions to target chronic non-diabetic endocrine diseases where patient needs are not being met satisfactorily by current treatments and to accelerate our international position.

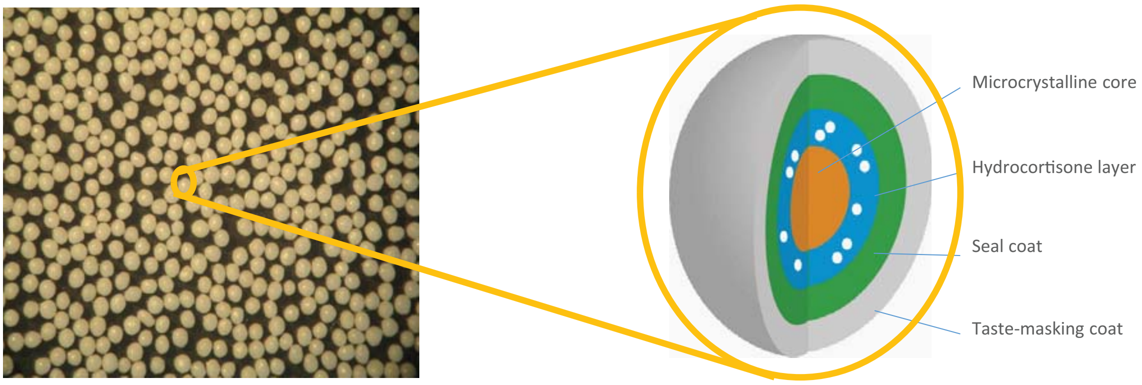
- Take advantage of potential organic growth opportunities through the indication expansion of our lead products and the continued development of our early stage pipeline in the areas of hypogonadism and hypothyroidism and Cushing's Disease.
- Evaluate strategic opportunities for potential acquisitions of, or combinations with, other market participants where these would accelerate or add value to the existing plan.

Our markets



Congenital Adrenal Hyperplasia

- An orphan condition usually caused by deficiency of the enzyme 21-hydroxylase, required to produce the adrenal steroid hormone, cortisol. The block in the cortisol production pathway causes the over-production of male steroid hormones (androgens), which are precursors to cortisol.
- The condition is congenital (inherited at birth) and affects both sexes.
- The cortisol deficiency and over-production of male sex hormones can lead to increased mortality, infertility and severe development defects including ambiguous genitalia, premature (precocious) sexual development and short stature. Sufferers, even if treated, remain at risk of death through an adrenal crisis.
- The condition is estimated to affect a total of approximately 71,000 patients in Europe (51,000) and the US (20,000), with approximately 405,000 in the rest of the world. The EU and US markets are estimated to be worth a combined $0.5bn annually.
- Current therapy for CAH uses a combination of generic steroids (hydrocortisone, dexamethasone and prednisolone) and, at best, these adequately treat approximately one third of CAH patients. Other therapies being developed are experimental only and not expected to receive approval in the short-term.



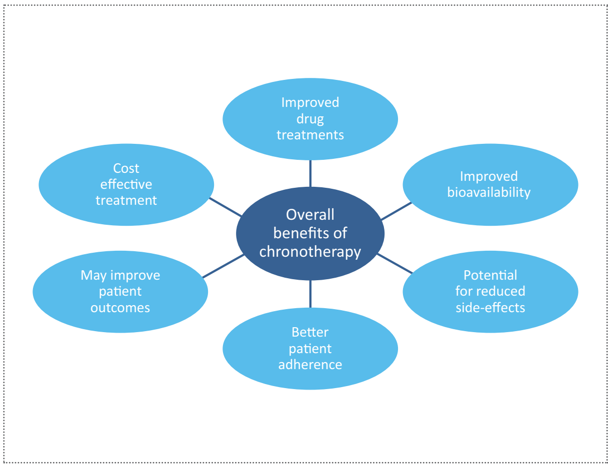
Adrenal Insufficiency

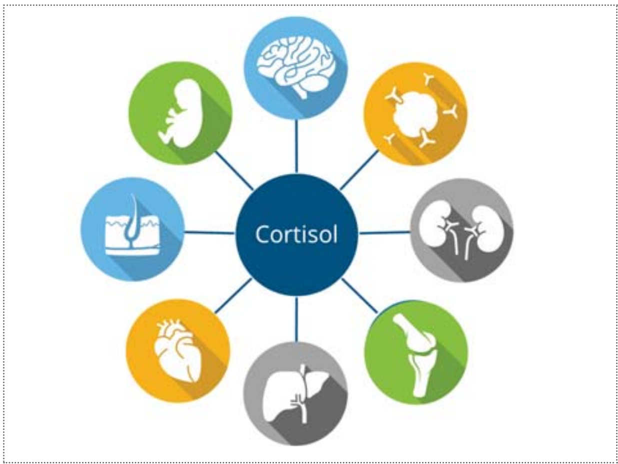
- An orphan condition that results from a deficiency of cortisol secretion from the adrenal gland.
- Primary AI results from diseases of the adrenal gland and secondary AI from pituitary diseases where there is a failure of stimulation of the adrenal.
- In primary AI the most common condition is Addison's disease, typically due to auto-immune destruction in the western world and frequently caused by tuberculosis in the developing world. Addison's disease is estimated to affect approximately 64,000 sufferers in Europe and 16,000 in the US with approximately 746,000 sufferers in the rest of the world.
- In secondary AI (hypopituitarism), the most common conditions are benign pituitary tumours or congenital disease in children. Hypopituitarism is estimated to affect approximately 231,000 sufferers in Europe and 107,000 in the US with approximately 3,015,000 sufferers in the rest of the world.
- The EU and US markets are estimated to be worth a combined $2.9bn annually.
- Current therapy for AI includes a modified-release formulation of hydrocortisone approved in Europe (but only available in certain European countries) based on its pharmacokinetic profile and which does not provide a release profile mimicking the natural circadian rhythm of cortisol.

Hypogonadism

- Results from failure of the testes (primary gonadal failure) or from failure of stimulation by the pituitary (secondary hypogonadism).
- In primary hypogonadism, failure of the testes can be congenital (inherited) or acquired during life due to a variety of causes (failure of the testes to descend into the scrotum, inflammation due to infections such as mumps, chemotherapy or radiotherapy affecting the testes, and following removal of the testes for testicular tumours).
- Secondary hypogonadism usually results from a benign tumour of the pituitary gland that causes hypopituitarism and may occasionally be congenital.
- Prevalence estimates vary dramatically. Clear-cut hypogonadism in young men occurs in approximately one per cent. of the population. As testosterone falls with aging and in the obese, prevalence ranges from 12% to 50% as age increases. The classical hypogonadism market in the EU and US is primarily driven by topical formulations, which the Directors currently estimate to be of a value of $5.8 billion in 2015.
- Treatment is testosterone replacement therapy via intramuscular injections, testosterone patches and testosterone gels.
- There is some controversy over the risks and benefits in replacing testosterone in older men (including the potential for cardiovascular disease) and the Group is focused on developing testosterone replacement for men with clearly-defined hypogonadism according to current clinical guidelines.

Our markets continued



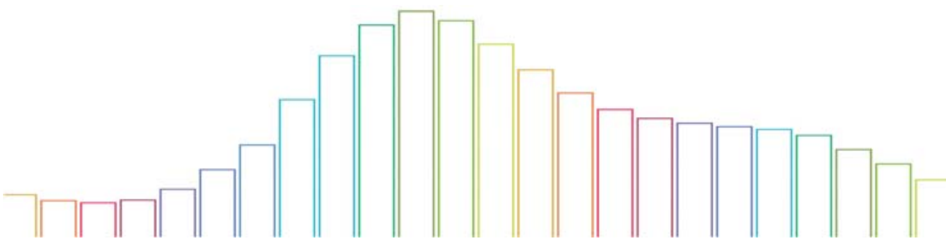


Hypothyroidism

- Hypothyroidism, caused by abnormal levels of thyroxine (T4) and triiodothyronine (T3) in the blood stream.
- Primary hypothyroidism can be a result of dysfunction of the thyroid gland, with the most common cause being autoimmune destruction of the thyroid gland.
- Less commonly secondary hypothyroidism can be a result of failure of the pituitary, which stimulates the thyroid. The most common causes are benign pituitary tumours or surgery.
- Rarely, hypothyroidism can be congenital (inherited) and this can be both primary and secondary.
- Hypothyroidism can occur at any age, but is more frequent in the elderly, and it is estimated that up to 5% of people over 60 years of age are hypothyroid with an estimated market size for patients who do not respond to T4 replacement therapy alone (T4 non-responders) of $0.7 billion per annum worldwide.

Cushing's Syndrome/Disease

- Results from excess cortisol production either as a result of a tumour in the adrenal gland (Cushing's syndrome) or from excess stimulation by benign tumours of the pituitary gland (Cushing's disease).
- Initial treatment is surgery, but up to 35 per cent of patients with Cushing's disease require long-term medical therapy as surgery is not successful.
- There is an estimated drug-treatable prevalence of approximately 8,600 sufferers in Europe and 5,500 in the US (Datamonitor Report).
- It is most common in adults, between the ages of 20 and 50 years old and it affects women more frequently than men.
- The Company estimates the market opportunity to be in the region of $0.5 billion per annum worldwide.



Our product portfolio

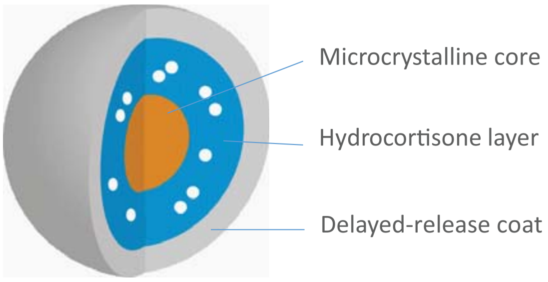
Our late-stage "Adrenal Franchise"

INFACORT®

- An immediate-release hydrocortisone preparation targeting Adrenal Insufficiency (including Congenital Adrenal Hyperplasia) in children under six years of age in Europe and sixteen years of age in the US.
- Successfully completed a European Phase III clinical trial in July 2016.
- On track to submit the regulatory dossier to the EMA around the end of 2016, with market authorisation anticipated in late 2017.
- Commencing the US registration programme in 2016.

CHRONOCORT®

- A modified-release hydrocortisone preparation targeting Congenital Adrenal Hyperplasia in adult patients.
- Commenced a European Phase III clinical trial in February 2016.
- Commencing a US Phase III clinical trial in 2017.



Our early stage pipeline

NATIVE ORAL TESTOSTERONE

- A replacement treatment for patients suffering from hypogonadism.
- Commencing a proof of concept study in male hypogonadal patients in late 2016.

RHEUMACORT®

- A delayed, immediate-release formulation of hydrocortisone designed to help control cytokines, developed using the same formulation technology applied in Chronocort®.
- Reviewing suitable clinical proof of concept opportunities where Rheumacort® may have the potential to improve inflammatory disease control with a lower risk of side-effects.

TRI4COMBI™

- A physiological combination therapy of T3 and T4 hormones for patients suffering from hypothyroidism.
- Completed initial formulation development to enable selection of a suitable technology to generate new formulations of the hormones T4 and T3, which will allow the replacement of the normal physiological ratio of T4 to T3 to be tested in the clinic.

CUSHING'S OLIGONUCLEOTIDE THERAPY

- Short interfering RNA oligonucleotide therapy for patient suffering from adrenocorticotropin-dependent Cushing's syndrome.
- Pre-clinical stage with clinical development plan in the process of being established to map pathway to first in human trials.

Operational review

The financial year to June 2016 has seen significant transformation in our aspiration to become a revenue generating endocrinology specialty pharmaceutical company. We successfully completed a £30m IPO on AIM in December 2015, providing the Group with the resources to develop our novel, high quality, patent protected products by focussing on completing the development of Infacort® in Europe and the US; obtaining market authorisation in Europe for Infacort® and generating first revenues; completing the development of Chronocort® in Europe and commencing development in the US; and commencing the construction of Diurnal's commercial capability in Europe.

As a quoted company, the IPO on AIM also provides additional currency for future development by providing potential access to development capital to progress its current and future pipeline and enabling it to expand within its chosen specialist endocrine therapy areas.

Significant clinical progress towards building a proprietary endocrinology franchise

Infacort®

Infacort® is Diurnal's most clinically advanced product and is the first preparation of hydrocortisone (the synthetic version of cortisol) specifically designed for use in children suffering from adrenal insufficiency (AI), including the related disease, Congenital Adrenal Hyperplasia (CAH). Currently there is no licensed hydrocortisone preparation in Europe or the US specifically designed to treat these young patients. Infacort® is on target to be the first pharmaceutically defined dose and consistent formulation of hydrocortisone designed specifically for children. The patented, immediate-release oral product has been designed to meet the dosing needs of children and is manufactured using commercially proven technology in paediatric acceptable doses in order to give maximum flexibility to clinicians in tailoring treatment to children as they develop and grow. Currently, pharmacists often compound (grind) hydrocortisone tablets to a fine powder and reconstitute it in individual capsules or sachets to achieve the lower doses required for children. Compounding is not a licensed method of producing medicines; it can be highly variable and may result in inaccurate dosing to patients.

Post year and ahead of schedule in July 2016, Diurnal announced positive headline data from the pivotal Phase III clinical trial for Infacort® in Europe for paediatric AI. AI (and CAH) is identified as a rare disease in Europe where there are estimated to be approximately 4,000 sufferers younger than the age of six. Left untreated, the disease is associated with significant morbidity.

The Phase III study was designed in agreement with the European Medicines Agency (EMA) and conducted in a total of 24 subjects before their sixth birthday, requiring replacement therapy for AI due to CAH, primary adrenal failure or hypopituitarism. Initial analysis of the results confirms that the study met its primary endpoint, demonstrating a statistically significant ($p<0.0001$) increase in cortisol values following administration of Infacort® compared to the pre-dose values. No serious adverse events were reported. A full evaluation of the data has been completed.

In March 2016, the first patient was treated in the Group's European open-label safety extension trial of long term safety and biochemical disease control of Infacort® in neonates, infants and children with CAH and AI, previously enrolled in the Group's pivotal Infacort® Phase III registration trial.

Chronocort®

Diurnal announced that the first patient was dosed with its second late-stage product, Chronocort®, in the pivotal Phase III clinical trial in Europe for adults with CAH in February 2016. Chronocort provides a drug-release profile that the Group believes mimics the body's natural cortisol circadian rhythm, which current therapy is unable to replicate, and will improve disease control for adults with CAH. Clinical data have shown that approximately two thirds of CAH patients are estimated to have poor disease control. CAH sufferers, even if treated, remain at risk of death through an adrenal crisis, suffer from high morbidity and a poor quality of life. The condition is estimated to affect approximately 51,000 patients in Europe and 20,000 patients in the US, with approximately 405,000 patients in the rest of the world.

The Phase III trial is designed to study up to 110 patients in an open-label six month protocol. Enrolled patients currently treated with a single or combination of generic steroids (standard-of-care) will be randomised to Chronocort® on a twice daily "toothbrush" regimen or will continue on their standard-of-care regimen. Following discussions with the EMA, the primary endpoint of the trial is the control of androgens (sex hormones) on the same or lower total daily dose of steroid when treated with Chronocort® compared to standard-of-care treatment. This primary endpoint is identical to the previous successful Phase II clinical trial for Chronocort® for which data were released in 2014. Secondary endpoints will include an assessment of fatigue levels and the relative effect of Chronocort® on body mass index and bone turnover, all of which are indicative of clinical benefits. The trial is scheduled to complete in early 2018, implying a potential market authorisation in Europe could be forthcoming around the end of 2018.

In August 2016, the first patient was treated in the Group's European open-label safety extension trial of long term safety, efficacy and tolerability of Chronocort® in patients with CAH, previously enrolled in the Group's pivotal Chronocort® Phase III registration trial.

In August 2015, Diurnal extended its existing Cooperative Research and Development Agreement (CRADA) with the National Institutes of Health (NIH), Maryland, US until June 2021. The extension will support the Phase III clinical trial of Chronocort® for the treatment of CAH in both the US and Europe. Diurnal successfully collaborated with the NIH to complete the Phase II clinical trial of Chronocort®.

Prelaunch activities

The EMA has already approved a Paediatric Investigation Plan (PIP) for Infacort®, setting out the regulatory pathway to market authorisation via the Paediatric Use Marketing Authorisation (PUMA) route, affording 10 years data exclusivity from the date of market authorisation. Diurnal is on track to submit this regulatory dossier to the EMA around the end of 2016. If approved, Infacort® has the potential to be the first licensed treatment in Europe for AI (including CAH) specifically designed for use in children. Diurnal anticipates market authorisation in late 2017 and is developing launch plans to ensure a prompt market introduction in the event that the product receives approval.

Extensive patent protection

Diurnal continues to protect its product candidates through an extensive patent portfolio, benefitting from a number of granted or pending patents in key jurisdictions. During the period, Chronocort® was granted orphan drug designation in the treatment of AI by the US Food and Drug Administration (FDA) in September 2015. This is further to Chronocort®'s orphan drug designation for the treatment of CAH, granted by the FDA in March 2015 and Infacort®'s orphan drug designation in the treatment of paediatric AI, granted by the FDA in May 2015. These orphan drug designations, together with the PUMA, mean Infacort® and Chronocort® have the potential to be granted market and data exclusivity for 10 years in Europe and seven years in the US post market authorisation.

Early-stage pipeline

Diurnal plans to use its cortisol replacement offering to build a strong platform in underserved diseases of cortisol deficiency and then expand into endocrine disease areas such as those associated with the thyroid, gonads and pituitary. Continued product development is expected to come from Chronocort® line extensions aiming to address additional cortisol deficiency indication(s) and from the Group's earlier-stage pipeline of endocrinology product candidates. These earlier-stage candidates currently include a native oral testosterone for the treatment of male hypogonadism; and Tri4Combi™, a novel formulation to treat hypothyroidism. Diurnal has successfully completed *in vivo* pre-clinical studies of its native oral testosterone replacement and expects to initiate a proof-of-concept study in human hypogonadal patients imminently.

Diurnal demonstrated its ability to identify potential endocrine therapies with one such pipeline acquisition during the period with the Group obtaining the rights, from the University of Sheffield (UK), to the orphan drug designation for an oligonucleotide therapy for the potential treatment of Cushing's Disease (cortisol excess). Cushing's Disease is often treated by the same clinicians that treat diseases of cortisol deficiency, thereby leveraging Diurnal's network in line with the Group's commercialisation strategy.

Outlook

Diurnal is well positioned to develop its late-stage pipeline to market authorisation and initiate commercialisation activities towards building a proprietary endocrinology franchise.

In Europe, Infacort® has the potential to be the first licensed treatment for AI (including CAH) specifically designed for use in children under six years of age. A full evaluation of the Phase III data has been completed. Diurnal is on track to submit a regulatory dossier to the EMA around the end of 2016 and is optimistic that it may receive market authorisation in late 2017. Prelaunch planning is underway to effect a rapid transition to a commercial organisation. In the US, following FDA feedback, Diurnal will be commencing the US registration programme for Infacort® in 2017 and anticipates market authorisation in the US in 2019 (previously the end of 2018).

Chronocort® has the potential to be the first product candidate for adults with CAH to mimic the natural cortisol circadian rhythm, therefore improving disease control. In Europe, Diurnal expects to report headline data from the Phase III clinical trial in Europe for adults with CAH in early 2018, implying a potential market authorisation in Europe could be forthcoming around the end of 2018. In the US, the Group continues its dialogue with the FDA on the Phase III clinical trial design and expects to have an update in early 2017, with the intention to commence the study later that year and anticipates market authorisation in the US in 2021 (previously the end of 2021).

Martin Whitaker
Chief Executive Officer
11 October 2016

Financial review

"Net cash generated by financing was £29.1m reflecting the net proceeds of the IPO and the convertible loan."

Operating income and expenses

Operating expenses are in a growth phase, reflecting the increased clinical and development activities together with investment in overheads including headcount and business infrastructure to support the anticipated growth and development of the business in the coming periods.

Research and development expenditure for the year was £3.9m (13 months 2015: £2.2m). Of this £1.7m increase in expenditure £0.2m was as a result of the first time accounting for share options and a further £0.3m was as a result of the creation of a national insurance accrual for historical share option awards. Expenditure on product development and clinical costs increased in the period as the Group's Chronocort® product entered a Phase III clinical trial in Europe and prepared for a US trial and its native oral testosterone product prepared to commence its human proof-of-concept trial in hypogonadal patients. Staff related expenditure also increased as a result of the implementation of a new remuneration policy.

Administrative expenses for the year were £3.1m (13 months 2015: £1.0m). Of this £2.1m increase in expenditure, £0.6m was the one-off IPO costs, £0.3m was as a result of the first time accounting for share options and a further £0.1m was as a result of the creation of a national insurance accrual for historical share option awards. The remaining increase resulted from the appointment of new staff, the implementation of a new remuneration policy and public company costs. In addition to the IPO costs of £0.6m (13 months 2015: £nil). A further £0.8m (13 months 2015: £nil) of fees paid in connection with the fundraising are shown as a deduction from share premium and £59k and £28k have been charged against the convertible loan liability and its equity component respectively.

Operating income in the prior period represents funds receivable from a European Commission grant supporting the European development of the Group's Infacort® product.

Operating loss

Operating loss for the period increased to £7.0m (13 months 2015: £3.0m).

Financial income and expense

Financial income in the period was £63k (13 months 2015: £8k), due to the higher average cash balances during the year, after the IPO fundraising and convertible loan financing. Financial expense for the period was £133k (13 months 2015: £41k), being the financial expense of the convertible loan. No interest is payable in cash on this loan, the financial expense representing the effective interest required under accounting standards to charge the transaction costs and equity element of the loan to the income statement over the term of the loan. The Group had interest bearing convertible loans outstanding for two months of the comparative period, before they were converted into equity, whilst the new convertible loan was outstanding for over six months of the 2015/16 financial year.

Loss on ordinary activities before tax

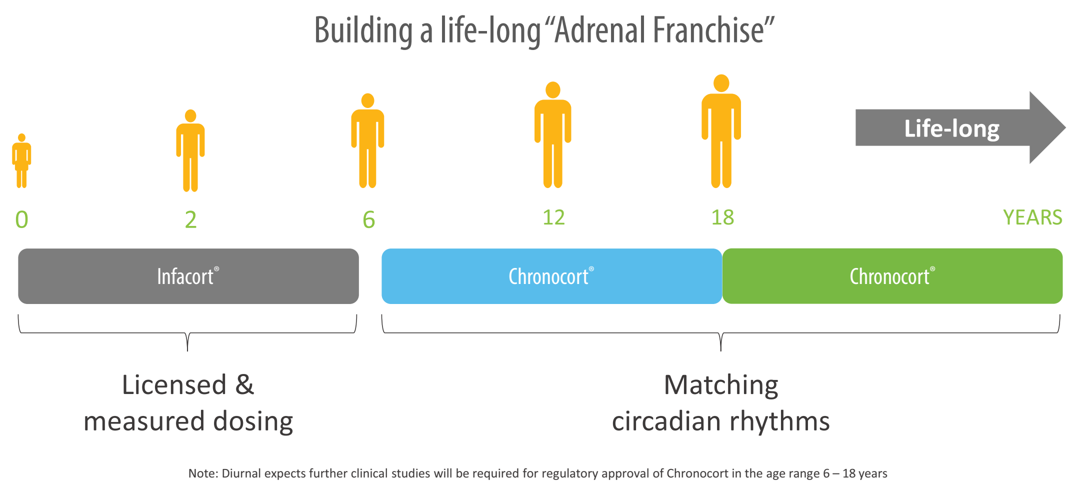
Loss before tax for the period was £7.1m (13 months 2015: £3.0m).

Tax

The Group has not recognised any deferred tax assets in respect of trading losses arising in either the current financial period or accumulated losses in previous financial years. The tax credits recognised in the financial periods ended 30 June 2016 and 2015 represent the receipt of Research & Development tax credits relating to their respective prior periods' activities.

Earnings per share

Loss per share was 15.0 pence (13 months 2015: 8.5 pence). Loss per share has increased due to the higher operating costs explained above.



Cash flow

Net cash used in operating activities was £5.1m (13 months 2015: £2.9m), driven by the increased loss for the period. Net cash used in investing activities was £14.0m (13 months 2015: £nil) being the investment of funds into one year cash deposits. Net cash generated by financing was £29.1m (13 months 2015: £8.0m) reflecting the net proceeds of the issue of shares in the IPO of £24.5m (13 months 2015: £8.0m from a private fundraising) together with £4.6m (13 months 2015: £nil) of funds received from the convertible loan.

Balance sheet

Total assets increased to £30.7m (2015: £6.5m), reflecting the increase in cash and cash equivalents arising from the issue of ordinary shares and the convertible loan, offset by the operating cash outflow for the period. Held to maturity financial assets were £14.0m (2015: £nil) and cash and cash equivalents were £16.1m (2015: £6.1m). Total liabilities increased to £4.7m (2015: £0.4m), reflecting the £3.2m liability component of the convertible loan (2015: £24k of other loans), together with trade and other payables of £1.5m (2015: £0.4m), which increased due to accruals for clinical costs, bonuses and employer's national insurance on non-tax beneficial share options. Net assets were £25.9m (2015: £6.0m).

Comparative information

The Group has applied the principles of reverse acquisition accounting under IFRS 3 'Business Combinations' in the presentation of consolidated shareholders' equity for comparative periods. These comparative periods show the results of the accounting acquirer (Diurnal Limited) along with the share capital structure of the parent company (Diurnal Group plc). As a result, the consolidated share capital and share premium presented for comparative periods is that which was in existence immediately following the share for share exchange which occurred on 1 December 2015, and which is explained further in note 2 to the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the Directors' Report on page 16.

Ian Ardill
Chief Financial Officer
11 October 2016

Board of directors

Peter Allen, BA ACA

Non-Executive Chairman

Peter Allen is Non-executive Chairman of the Board of Directors of Diurnal and joined the Group in July 2015. Peter has over 20 years' experience in senior board positions in a wide portfolio of healthcare companies. He is currently Non-executive Chairman of AIM-quoted Advanced Medical Solutions plc, main market-quoted Future plc, AIM-quoted Clinigen plc, as well as privately owned Oxford Nanopore Technologies Ltd. Previously, Peter was Chairman and interim Chief Executive Officer of ProStrakan Group Plc and spent three years as Chairman of Proximagen Group Plc (now Proximagen Group Limited). Prior to this, he was Chief Financial Officer of Celltech Group plc between 1992 and 2004. In addition to managing Celltech's flotation process in 1993, Peter played a key role in several strategic acquisitions, including Chiroscience Group plc, Medeva plc and Oxford Glycosciences plc. In 2003, Peter was also appointed Deputy Chief Executive Officer of Celltech until the Company was sold to UCB in 2004. Peter is a qualified chartered accountant by background and has a joint degree in Accountancy and Law.

Martin Whitaker, BSc PhD

Chief Executive Officer

Martin Whitaker is Chief Executive Officer of Diurnal with overall responsibility for delivering the Group's commercial objectives. Martin joined the Group in January 2008 and has over 18 years' experience in the pharmaceutical industry and has led the Diurnal team to progress the Company's lead products, Chronocort® and Infacort®, into pivotal Phase III clinical trials. Martin is also Director of D3 Pharma Limited which has successfully commercialised Plenachol®, a high dose Vitamin D product prescribed in the UK. Previously, Martin worked for Fusion IP plc with responsibility for commercialising research from the Medical School at the University of Sheffield. Prior to this, Martin was Operations Director of Critical Pharmaceuticals Limited, a venture capital-backed drug delivery company spun out of the University of Nottingham developing long-acting growth hormone products. Martin has a PhD in Pharmaceutical Science from the University of Nottingham and a BSc (Hons) in Biochemistry from Bristol University. Martin also spent a year working for the pharmaceutical company, Pfizer, in Sandwich (UK).

Ian Ardill, BSc ACA

Chief Financial Officer and Company Secretary

Ian Ardill is Chief Financial Officer of Diurnal and joined the Group in April 2015. Ian has over 20 years' experience in senior financial positions. Before joining the Group, Ian was CFO of two listed companies: Biocompatibles International plc for over six years and Lombard Medical Technologies plc for over three years. At Biocompatibles, Ian played a leading role in transforming the company from a loss-making to a profitable enterprise with sales of £33 million. He also managed the successful £177 million sale of the business to BTG Plc in 2011 and two returns of capital to shareholders totalling £23 million. In addition, Ian was responsible for the implementation of Biocompatibles' dividend programme. At Lombard Medical, Ian led the company financially through the late stages of FDA pre-market approval and the commencement of US commercial operations. On the financing front, he managed a £22 million AIM fundraising and the company's $55 million NASDAQ IPO, involving the cancellation of admission to trading on AIM and a re-domicile. Ian has also worked at Novartis Pharmaceuticals, the Compass Group, NHA International and Grant Thornton. Ian is a qualified chartered accountant.

Richard Ross, MBBS MD FRCP

Chief Scientific Officer

Richard Ross is a founding Director of Diurnal and Chief Scientific Officer and is contracted to perform work for the Group by the University pursuant to the terms of a secondment agreement and a research agreement. He is a Professor of Clinical Endocrinology and Head of the Academic Unit of Diabetes, Endocrinology and Metabolism at the University of Sheffield and was previously a Senior Lecturer at St. Bartholomew's Hospital, London. Richard's primary research interest is pituitary and adrenal disease with a particular focus on hormone replacement. His research has yielded over 200 papers, more than 30 granted patents and publications in Nature Medicine, Nature Reviews Endocrinology, Nature Genetics, The Lancet, The BMJ and PNAS. He has been a member of the editorial boards of Clinical Endocrinology and the Journal of Clinical Endocrinology and Metabolism and served as an elected member of the executive committees for the European Society of Endocrinology (Treasurer), the Society for Endocrinology and Growth Hormone Research Society.

John Goddard, BA FCA MCT

Independent Non-Executive Director

John Goddard has had a distinguished career in the global pharmaceutical industry, the majority of which was with AstraZeneca, where he was ultimately Head of Group Strategic Planning and Business Development. Prior to his retirement from AstraZeneca in 2010, he was responsible for a 100 strong global team focused on M&A and licensing, which completed around 75 transactions in four years including several acquisitions, in-licensing and out-licensing of compounds and disposals. Latterly, Mr. Goddard became Chairman of two AstraZeneca subsidiaries, Aptium Oncology in the US and Astratech in Sweden. He is currently a Non-executive Director of Oxford Pharmascience plc and Intas Pharmaceuticals Limited. John is a Fellow of the Institute of Chartered Accountants and a Member of the Association of Corporate Treasurers. John joined the Group in November 2015.

Alan Raymond, BSc PhD

Non-Executive Director, Board representative of Finance Wales

Alan Raymond is an industry veteran with over 30 years of international marketing and general management experience within the pharmaceutical and biomedical industry. Alan was appointed to the board of Diurnal Limited by Finance Wales in April 2015. Most recently, Alan was the Sales and Marketing Director at Aesica Pharmaceuticals Ltd. Aesica was subsequently acquired by Consort Medical plc in September 2014. During his career, Alan progressed through senior executive and marketing roles in Banner Pharmacaps, RP Scherer, Reckitt and Colman, Eli Lilly, and MSD, within the UK, Netherlands and Australia. Alan is currently Non-Executive Chairman of AniPOC Ltd, a developer and marketer of veterinary diagnostic devices and a Non-executive Director of ADC Biotechnology Ltd a contract developer and manufacturer of antibody-drug conjugates. Prior to his industrial career, Alan was a postdoctoral researcher in the Cardiothoracic Research Institute (London) and he holds a PhD in Invertebrate Neurobiology from St. Andrews University.

Sam Williams, MA PhD

Non-Executive Director, Board representative of IP Group plc

Sam Williams has 18 years' experience in the biotechnology industry, both as a top-ranked equity analyst in the City and, subsequently, as an entrepreneur and Chief Executive. From 2002 to 2007 he worked at Lehman Brothers where he was ranked the number one European biotechnology equity analyst by Institutional Investor magazine three years in a row. Sam left Lehman Brothers in 2007 to establish Modern Biosciences (MBS), a drug discovery company focused on novel treatments for autoimmune and inflammatory conditions. MBS' lead product is in clinical studies for the treatment of rheumatoid arthritis and is the subject of a £176m option and licensing agreement with Janssen Biotech Inc. (J&J), signed in November 2014. As well as being CEO of MBS, Sam oversees the biotechnology portfolio of the FTSE 250 company, IP Group plc, and sits on its Executive Committee. He is a board member of the UK BioIndustry Association (BIA), a non-executive director of Diurnal Group plc and C4X Discovery Holdings Plc, and serves on the Translational Awards Advisory Committee of the British Heart Foundation (BHF). Sam has a PhD from Cambridge University and an MA in Pure and Applied Biology from Oxford University. Sam was appointed to the Board of Diurnal by IPG in October 2014.

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 30 June 2016.

Principal activity

The Group's principal activity is in specialty pharmaceuticals, targeting patient needs in chronic endocrine (hormonal) diseases. Further details about the principal activity of the Group is set out in the Strategic Report.

The Company's principal activity is to act as the parent company for the Group.

Business review and future development

A review of the Group's business and performance and its future development is given in the Chairman's Report, the CEO's Review and the Financial Review in the Strategic Report. The Board's strategy is to complete the development of its late-stage products and to bring these to market by building a direct sales and marketing function in Europe and the US. Its longer-term strategy is to continue product portfolio expansion through both pipeline R&D, in-licensing and acquisitions to target chronic non-diabetic endocrine diseases where there are patient needs that the Directors believe are not being met satisfactorily by current treatments. The Group aims to be a "go-to" market participant for companies looking to out-license future endocrine products through development of a leading position in endocrinology with a targeted specialist sales force.

Key performance indicators

The Board is in the process of identifying the most appropriate key performance indicators with which to monitor performance.

Results

The results for the financial year are set out on page 26 of the financial statements and highlighted in the Strategic Report.

Significant shareholdings

At 11 October 2016 the Company has been notified of the following interests of 3% or more of the issued ordinary share capital of the Company:

Name of Holder	Number of shares	% of Issued shares
IP Group plc	23,808,100	45.6%
Finance Wales plc	11,534,888	22.1%
Invesco Limited	6,527,777	12.5%
Oceanwood Capital Management LLP	3,472,222	6.7%
Sarum Investment SICAV Plc	1,576,500	3.0%

Directors

The Directors of the Company are as follows and their details are set out on pages 12 and 13. All Directors served with effect from admission of the Company's shares to trading on AIM on 24 December 2015 and throughout the remainder of the financial year and subsequently to the date of signing of the financial statements.

Name	Title
Peter Allen	Non-executive Chairman
Martin Whitaker	Chief Executive Officer
Ian Ardill	Chief Financial Officer
Richard Ross	Chief Scientific Officer
John Goddard	Non-executive Director
Alan Raymond	Non-executive Director
Sam Williams	Non-executive Director

Directors' interests

The interests of the Directors in the ordinary share capital of the Company are as follows:

Name	11 Oct 2016 Ordinary shares of £0.05 each in Diurnal Group plc	30 Jun 2016 Ordinary shares of £0.05 each in Diurnal Group plc	30 Jun 2015 Restated for the effect of the share exchange Ordinary shares of £0.05 each in Diurnal Group plc	30 Jun 2015 Ordinary shares of £1.00 each in Diurnal Limited
Executive				
Martin Whitaker	11,111	11,111	–	–
Ian Ardill	13,888	13,888	–	–
Richard Ross	1,553,944	1,553,944	1,547,000	3,094
Non-executive				
Peter Allen	34,722	34,722	–	–
John Goddard	6,944	6,944	–	–
Alan Raymond[1]	13,888	13,888	–	–
Sam Williams[2,3]	37,500	37,500	37,500	–

Diurnal Limited was acquired by Diurnal Group plc in a share exchange on 1 December 2015. Diurnal Limited shareholders received 500 ordinary shares of £0.05 in Diurnal Group plc for each ordinary share of £1.00 in Diurnal Limited. The June 2015 shareholdings are shown for comparative purposes.

1. *Director nominated by the Finance Wales plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%. Finance Wales plc holding is 11,534,888 shares.*
2. *Director nominated by the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%. IP Group plc holding is 23,808,100 shares.*
3. *Held beneficially via IP2IPO Nominees Limited which is the registered holder.*

Employees

The Group is committed to promoting equal opportunities in employment. Its employees and job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

The Executive Directors regularly engage with employees to seek their views and provide briefings and presentations on key developments and strategy. Employees are encouraged to offer suggestions and views, and to raise queries with the Directors and senior managers.

To aid in retention, a benefits package encompassing death in service and medical insurance, together with a contributory pension scheme, is offered to all employees, in addition to salary. A discretionary bonus scheme and a long term incentive programme are also available.

Research and development

During the year, the Group incurred £3.9m (13 months 2015: £2.2m) in the continuing development of its product portfolio. These costs were expensed in accordance with the Company's accounting policy. Further details on the activities and nature of this expense are contained in the Operational review on page 8 and the Financial review on page 10.

Political and charitable donations

The Group made charitable donations during the year of £7k (13 months 2015 £nil). No political donations were made in either period.

Financial instruments

Information about the use of financial instruments by the Group and its subsidiaries is given in note 19 to the financial statements.

Events after the reporting date

There were no significant events since the balance sheet date.

Principal risks and uncertainties

Diurnal considers strategic, operational and financial risks and identifies actions to mitigate these risks. Broadly, risks facing the Group are categorised into the following categories, with significant risks including:

The Company being at the development stage. The Group is a development stage biopharmaceutical group and has a limited operating history, has incurred losses since incorporation and anticipates that it will continue to incur losses for the foreseeable future.

- The available funding required to support the business through to profitability and cash generation may be insufficient or unavailable on acceptable terms. Inadequate financial resources could have an adverse impact on the Group's business.
- The Group also faces risks relating to the development, manufacturing feasibility and scale-up, pre-clinical and clinical testing of its products. Clinical trials are expensive, time consuming, difficult to design and implement and involve uncertain outcomes.
- The Group depends on the success of a limited number of products which are still in pre-clinical or clinical development. Failure of one or more product may affect its financial performance.

Commercialisation and growth strategy. The Group has never commercialised a product candidate and it may lack the necessary expertise, personnel and resources to commercialise successfully any of its product candidates that receive regulatory approval on its own or together with suitable partners.

- The pharmaceutical industry is competitive and rapidly changing, which may result in competitors commercialising products before or more successfully than the Group, the Group not successfully competing with competitors' products or the Group's products not gaining market acceptance.
- Successful commercialisation of the Group's product requires achieving commercial scale manufacturing capability in a timely and efficient manner and to which governmental authorities and health insurers establish adequate coverage, reimbursement levels and pricing policies.

Reliance on third parties. The Group relies on third parties to conduct pre-clinical and clinical trials and to manufacture its products and if such third parties perform in an unsatisfactory manner, there may be an adverse effect on the Group's business.

- Product development is subject to significant regulation over clinical trials and manufacturing. The facilities on which the Group relies may not continue to meet regulatory requirements or may not be able to meet supply demands.
- The Group faces the risk of insolvency or change in business direction of its counterparties along with those around the misappropriation or disclosure of intellectual property and trade secrets.

Intellectual property. The Group seeks to protect its products and technology trough patents, Orphan Drug status and the development of clinical data.

- Ineffective intellectual property rights for its technologies, products or any future products may restrict the ability to compete effectively and have an adverse effect on the business.
- Third party claims of intellectual property infringement may expose the Group to substantial liability or prevent or delay its development and commercialisation efforts.
- The Group may be involved in litigation to protect or enforce its patents, which could be expensive, time-consuming and unsuccessful.

Government and regulatory. The Group operates in a highly regulated industry.

- Once one or more of the Group's product candidates obtains regulatory approval, the Group will be subject to ongoing obligations and continued regulatory requirements, which may result in significant additional expense.
- Orphan drug designation may not ensure that the Group will enjoy market exclusivity in a particular market and, if the Group fails to obtain or maintain orphan drug status for its product candidates, it may be subject to earlier competition and its potential revenues may be adversely affected.
- Existing and future legislation may increase the difficulty and cost involved in the Group obtaining regulatory approval for, and commercialising, its product candidates and may affect the prices that the Group may set for them.

Other operational. The Group's future development and prospects depend to a significant degree on the experience, performance and continued service of its senior management team and the ability to attract and retain suitably skilled and qualified people. As the Group expands, management may need to devote time to managing growth, diverting focus from day to day activities. Any failure in financial, operational and management information systems may result in a loss of control and adversely impact the Group's ability to operate effectively and to fulfil its contractual obligations.

Following the IPO, the company holds a significant cash balance, which is subject to fraud, credit and liquidity risks. The Board has adopted a policy of dual approval for all payments made by the company; in relation to credit risk, has set a minimum credit rating of A-, together with a maximum exposure of £8m to an individual counterparty; and in relation to liquidity risk, reviews cash flow forecasts and holds cash in immediate access and term deposits to a maximum term of 12 months.

Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Statement of Directors regarding disclosure of information to auditors

Each Director, whose name and function is listed in the Directors' Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going concern

The financial position of the Group is described in the Financial Review. The Board has considered the applicability of the going concern basis in the preparation of the financial statements. This included the review of internal budgets and financial results and a review of cash flow forecasts for the 12 month period following the date of signing the financial statements. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason they have adopted the going concern basis in the preparation of the financial statements.

Independent Auditor

KPMG LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of FTI Consulting LLP, 200 Aldersgate, Aldersgate Street, London EC1A 4HD on Wednesday 23 November 2016 at 11.00 a.m. Full details of the business to be transacted at the AGM can be found in the Notice of Annual General Meeting on page 52 of this report.

On behalf of the Board

Ian Ardill
Company Secretary
11 October 2016

Corporate governance report

Introduction

As a company listed on the Alternative Investment Market of the London Stock Exchange, Diurnal Group plc is not required to comply with the requirements of the UK Corporate Governance Code. However, the Board seeks to follow best practice in corporate governance to the extent appropriate to the Company's size, nature and stage of development and in accordance with the regulatory framework that applies to AIM companies. The Board seeks to apply the principles and provisions of the QCA corporate governance code for small and mid-sized companies where it is appropriate to do so to support the governance framework.

The Company was incorporated on 28 October 2015 and its shares were admitted to trading on AIM on 24 December 2015.

The Board

The Board comprises seven Directors; three executive Directors and four non-executive Directors, each bringing a different experience and background. Two of non-executive Directors are considered by the Directors to be independent for the purposes of the QCA corporate governance code, Peter Allen and John Goddard. Whilst Peter Allen has been the Group's non-executive chairman since July 2015, he had no association with, and was independent from, the Group at the time of his appointment and, as such, the Directors consider that he satisfies the independence criteria set out in the QCA corporate governance code.

Peter Allen is the Chairman and Martin Whitaker is the Chief Executive Officer, each with clearly defined responsibilities. Peter Allen operates in a non-executive capacity. The Chairman leads the Board and is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-today management of the Company. The Chairman facilitates the effective contribution of Non-executive Directors and constructive relations between Executive and Non-executive Directors, ensures Directors receive accurate, timely and clear information and that effective communication occurs with institutional shareholders.

The Board meets regularly and at least six times in the year to consider strategy, performance and the framework of internal controls. There is a formal schedule of matters reserved for decision by the Board in place, which includes strategic matters such as the formulation and implementation of strategy, the approval of annual budgets, the review of the Group's performance and prospects, the approval of the financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions to be taken on whether to take forward or to cancel a scientific project.

All Directors receive appropriate and timely information, as expected under the QCA Corporate Governance Code and all Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Directors are able to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

Each Director has a duty to avoid situations in which he has or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. The Board requires each Director to declare to the Board the nature and extent of any direct or indirect interest in a proposed transaction or arrangement with the Company and the Company Secretary maintains a register of Directors' other interests. The Board has power to authorise any potentially conflicting interests that are disclosed by a Director. Directors are required to notify the Company Secretary when any potential conflict of interest arises.

Attendance at Board and Committee meetings over the course of the 2015/16 financial year was as follows:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Meetings	Attended	Meetings	Attended	Meetings	Attended	Meetings	Attended
Executive								
Martin Whitaker	8	8	–	–	–	–	–	–
Ian Ardill	8	8	–	–	–	–	–	–
Richard Ross	8	8	–	–	–	–	–	–
Non-executive								
Peter Allen	8	8	1	1	4	4	0	0
John Goddard	5	4	1	1	2	1	0	0
Alan Raymond	8	8	1	1	5	5	0	0
Sam Williams	8	8	1	0	5	5	0	0

The table summarises the formal, scheduled meetings which fell during the year in Diurnal Group plc since incorporation on 28 October 2015 and before that date, in Diurnal Limited. The analysis does not include the IPO-related structural and procedural meetings.

Board Performance Evaluation

Each Director is subject to election by shareholders at each Annual General Meeting. Given the short period of time since the Company's admission to AIM, the Board has not yet established a process for evaluating the performance of the Board, the committees and of the Directors. It plans to do so in the 2016/17 financial year.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees, each with written terms of reference. If the need should arise, the Board may set up additional committees, as appropriate.

Audit Committee including the Audit Committee Report

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses, in particular, on compliance with accounting policies and ensuring that an effective system of audit and financial control is maintained, including considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors and advising on the appointment of external auditors. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board. The Audit Committee will meet at least three times a year at the appropriate times in the financial reporting and audit cycle and at such other times as may be deemed necessary. The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, together with requirements of any quorum for, and the right to attend, meetings. The responsibilities of the Audit Committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The Audit Committee met once during 2015/16, to review the 2015/16 Interim Results prior to their submission for approval to the full Board. In this meeting, the Committee considered the accounting for the share transactions in the Company, the treatment of the costs of the IPO, the principles of reverse acquisition accounting in relation to the group restructure, the accounting for the share based payments and for the convertible loan. A meeting to consider the Audit Strategy and Plan for the 2015/16 Final Results occurred just after the close of the financial year.

Any non-audit services that are to be provided by the external auditors are reviewed in order to safeguard auditor objectivity and independence. The Committee considered the external auditor's procedures to safeguard independence and objectivity and the Committee confirms that the non-audit services earned by the external auditor for work performed in relation to and prior to the IPO are not considered to have impaired its objectivity and independence. The external auditor has the opportunity during the Audit Committee meetings to meet privately with committee members in the absence of executive management.

In preparation for the IPO, the Board considered a review of risks facing the Group, together with management's assessment of the risks and mitigation steps. Since the IPO, the Audit Committee is responsible for reviewing the Company's procedures for the identification, assessment, management and reporting of risks.

The Company has a whistleblowing policy, in which staff may notify management or Non-executive Directors of any concerns regarding suspected wrongdoing or dangers at work.

The Audit Committee comprises four members, who are all Non-Executive Directors: John Goddard (Chairman), Peter Allen, Alan Raymond and Sam Williams. Peter Allen and John Goddard are qualified chartered accountants and have significant experience gained in senior financial management positions and as Non-executive Directors and Audit Committee members and chairmen.

Remuneration Committee

The Remuneration Committee has responsibility for determination of specific remuneration packages for each of the Executive Directors and certain senior executives of the Group, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share incentive, or other performance-related schemes. It meets at least twice a year and at such other times as may be deemed necessary. The Remuneration Committee also generates an annual remuneration report to be approved by the members of the Company at the annual general meeting.

The responsibilities of the Remuneration Committee covered in its terms of reference include the following: determining and monitoring policy on and setting levels of remuneration, termination, performance-related pay, pension arrangements, reporting and disclosure, share incentive plans and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities.

The Remuneration Committee comprises four members, all of whom are Non-Executive Directors: Alan Raymond (Chairman), John Goddard, Peter Allen and Sam Williams.

Nomination Committee

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary, taking into account the skills and expertise that will be needed on the Board in the future. The Nomination Committee's terms of reference deal with such things as membership, quorum and reporting responsibilities. The Nomination Committee intends to meet at least once a year and at such other times as may be deemed necessary.

The Nomination Committee comprises four members, all of whom are Non-Executive Directors: Peter Allen (Chairman), John Goddard, Alan Raymond and Sam Williams.

Share Dealing Code

The Company has adopted a code on dealings in relation to the securities of the Group. The Company shall require the Directors and other relevant employees of the Group to comply with the Share Dealing Code and takes proper and reasonable steps to secure their compliance.

Bribery Act 2010

The Company has adopted an anti-bribery and corruption policy following a review its operational procedures in the light of the Bribery Act and has implemented appropriate procedures.

Internal Controls

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide reasonable assurance that the Group's assets are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and regulatory compliance areas, together with risk management. The principal risks and uncertainties for the Group are set out on page 16 of this Annual Report. The Group maintains a risk register, which is reviewed and updated annually. Each potential risk across the Group will be assessed against the likelihood of occurrence and the impact on the business, should the risk be realised.

The Board has established, maintains and is responsible for assessing and reviewing the effectiveness of the Group's system of internal control. Some of the key features of the internal control procedures are as described below.

- Each year, the Board approves the annual budget and performance is monitored against budget, with relevant action being taken throughout the year. Expenditure is regulated by the budgetary process together with authorisation levels and for expenditure exceeding a certain level, Board approval is required.
- In addition to the expenditure authorisation control, other financial controls operate around the payroll and payment processes and the monthly accounting cycle, including the review and reconciliation of certain accounts. Segregation of duties and dual signature controls exist where appropriate and practicable.
- The external auditors provide a supplementary, independent perspective on those areas of the internal control system which they assess in the course of their work. Their findings are reported to the Board via the Audit Committee.

Investor relations

The Board encourages communications with all shareholders. There is regular dialogue with major, institutional shareholders, usually after the announcement of half year and full year results. Presentations are made to analysts at those times to present the Group's results; these presentations being webcast and made available on the Company's website. This assists with the promotion of knowledge of the Group in the investment marketplace and with the existing shareholders. The process also helps the Directors to understand the needs and expectations of shareholders. The Directors use the Annual Report and financial statements and the Annual General Meeting as opportunities to engage with its private investors in addition to its institutional investors. The Board believes that the Annual General Meeting offers an excellent opportunity to communicate directly with shareholders. This year's Annual General Meeting will be held on 23 November 2016 and details of the resolutions to be proposed at the meeting can be found in the Notice of Meeting at the end of this Annual Report.

Stakeholder and social responsibilities

The Board believes that good corporate governance encompasses assessing the Company's impact on and contribution to society, its community and the environment. The Board recognises its responsibilities to shareholders and also to other stakeholders, such as employees, customers and suppliers and to the patients who will ultimately benefit from its products.

On behalf of the Board

Peter Allen
Chairman
11 October 2016

Remuneration report

Introduction

Companies with securities traded on the London Stock Exchange's AIM market are not required to comply with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and disclosure provisions under Schedule 8 of the Companies Act 2006. However, the Remuneration Committee is committed to maintaining high standards of corporate governance and disclosure and has taken steps to comply with best practice in so far as it can be applied practically given the size, stage of development and resources of the Group.

The following disclosures are provided on an unaudited voluntary basis and a resolution to approve the Remuneration Report will be presented to shareholders at the Annual General Meeting.

The Remuneration Report is unaudited except for the Directors' remuneration table which is subject to audit.

Remuneration Committee

The Remuneration Committee consists of Alan Raymond (Chairman), Peter Allen, John Goddard and Sam Williams. All members of the Committee are Non-executive Directors, of whom Peter Allen and John Goddard are considered by the Board to be independent.

The Remuneration Committee has responsibility for the following:

- determining and monitoring remuneration policy;
- determination of specific remuneration packages for each of the Executive Directors and certain senior executives of the Group, including pension rights and any compensation payments;
- recommending and monitoring the level and structure of remuneration for senior management;
- implementing share incentive or other performance-related schemes;
- reporting and disclosure of remuneration; and
- the use of remuneration consultants.

Between Diurnal Limited, pre IPO, and Diurnal Group plc, post IPO, there were five Remuneration Committee meetings during the year.

Policy on remuneration of Executive Directors

It is the Group's policy to provide remuneration packages that are competitive with those of other companies of a similar size, complexity and stage of development. The Group recognises the benefits of performance related remuneration and both the awards of share options and annual bonuses are linked to various performance measures.

Components of the remuneration package

The principal components of Executive Directors' remuneration packages are basic salary, a performance related bonus, medium- and long-term incentives in the form of share options, pension contributions and other benefits. The policy in relation to each of these components, and the key terms of the various incentive and benefit programmes are explained further below.

Basic salary

Base salaries are reviewed annually, with the level of increases for Executive Directors taking account of the increases awarded to the workforce as a whole, as well as a consideration of the performance of the Group and the individual, skill set and experience and external indicators such as salaries in comparable companies and inflation. No annual review increase occurred in July 2016.

At the time of the IPO, the Remuneration Committee performed a benchmarking of Executive and Non-executive Director remuneration and considers that the salary levels of the Executive Directors are currently positioned below mid-market levels. The Committee considered this appropriate at this relatively early stage in the Group's development, however, it intends to increase salaries to a mid-market position subject to the Group entering its commercialisation phase within two years of the Company's admission to AIM.

Performance-related bonus

From the start of the 2015/16 financial year, the annual bonus for Executive Directors was payable in cash up to a specified target bonus level and, if relevant, in the form of "deferred share awards" in relation to the portion of any bonus in excess of such target bonus level. Deferred share awards will be awarded under the deferred share award feature of the Long Term Incentive Plan. From the start of the 2016/17 financial year, any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: CEO 50% cash, 50% deferred share awards; CFO 67% cash, 33% deferred share awards.

The number of Ordinary Shares comprised within deferred share awards will be set on grant to equal such number equal in value to the portion of the bonus being deferred, adjusted as necessary to neutralise the cost of exercise where awards are structured as nominal cost options. Such deferred share awards to Executive Directors will ordinarily vest after one year, subject only to continued employment.

Annual bonuses are payable at the sole discretion of the Remuneration Committee and are currently capped at 100% of salary for the Chief Executive Officer and 70% of salary for the Chief Financial Officer. The Committee set performance targets for the annual bonus plan at the start of each financial year.

In reflection of performance in the 2015/16 financial year, Executive Directors' bonus achievement has been agreed as 100% by the Committee. Martin Whitaker (CEO) will receive a total bonus of 100% of salary, payable 50% in cash and 50% in deferred shares and

Ian Ardill (CFO) will receive a total bonus of 70% of salary, payable 50% in cash and 20% in deferred shares. The performance criteria for 2015/16 included financing, development programme and personnel recruitment milestones. For 2016/17, they include clinical (lead programmes and pipeline) and commercial milestones and have plan and stretch components.

Long term incentive plan (LTIP)

It is currently intended that the primary long-term incentive arrangement for Executive Directors and selected senior managers will be delivered in the form of "performance share awards" under the performance share award feature of the LTIP. Awards will ordinarily be granted on an annual basis, shortly following announcement of the annual results. In the normal course of events, such performance share awards under the LTIP will vest three years from award, or upon the assessment of performance conditions, if later, subject to the participant's continued service and to the extent to which performance conditions specified for the awards are satisfied.

Such awards are currently planned equal in value to up to 100% of base salary for Martin Whitaker and up to 75% of salary for Ian Ardill (adjusted as necessary to neutralise the cost of exercise where the awards are structured as nominal cost options).

The first performance share awards to Executive Directors under the LTIP will be made following the announcement of the Group's annual results for the financial year ending 30 June 2016 up to such level. Selected senior managers and, at the Remuneration Committee's discretion, other employees will also participate in the performance share award element of the LTIP.

Pension arrangements

Pension is to be provided either via a contribution into the Company's defined contribution plan, which is in the process of being established, or via a cash supplement. The level of pension for the Executive Directors is 10% of basic salary.

Other benefits

Other benefits for Executive Directors include life assurance, private medical insurance and the benefit of income protection insurance.

Policies and guidelines

Recovery and withholding provisions may be operated at the discretion of the Remuneration Committee in respect of awards granted under the annual bonus plan and the LTIP in certain circumstances, (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition or in the event of misconduct on the part of the participant.

The Company has adopted formal shareholding guidelines in order to encourage Executive Directors to build or maintain a shareholding in the Company equivalent in value to no less than 100% of salary. If an Executive Director does not meet the guideline, he will be expected to retain at least half of the shares vesting (net of those sold to fund exercise price and taxation liabilities) under the Company's discretionary share based employee incentive schemes until the guideline is met.

Directors' service contracts

The Company's policy is for Executive Directors to have contracts of employment with an indefinite term providing for a maximum of one year's notice and for Non-executive Directors to be engaged on letters of appointment with an indefinite term providing for a maximum of three months' notice.

All Directors will retire at the Company's first Annual General Meeting, to be held on 23 November 2016, and are proposed for re-election. This is due to a conflict in the Articles with the more normal requirement for one third of Directors to retire by rotation and be subject to re-election at an Annual General Meeting at intervals of no more than three years. A resolution to amend the Articles to remove this conflict will be made at the 2016 Annual General Meeting. If passed, at each subsequent Annual General Meeting of the Company, one-third of the Directors shall retire from office by rotation subject to all Directors being subject to re-election at intervals of no more than three years.

Details of current Directors' service contracts and letters of appointment are as follows:

Name	Date of Appointment	Notice Period
Executive		
Martin Whitaker	21 Dec 2015	12 months
Ian Ardill	21 Dec 2015	6 months
Richard Ross[1]	21 Dec 2015	3 months
Non-executive		
Peter Allen	21 Dec 2015	3 months
John Goddard	21 Dec 2015	3 months
Alan Raymond[2]	21 Dec 2015	3 months
Sam Williams[3]	21 Dec 2015	3 months

1. *Richard Ross is employed by the University of Sheffield. A secondment agreement and a research agreement with the University cover his activities for the Group in addition to his Director's service agreement.*
2. *Director nominated by the Finance Wales plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%.*
3. *Director nominated by the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%.*

Directors' remuneration (audited)

The remuneration of the Directors who held office during the periods ended 30 June 2016 and 2015 were as follows:

Name	Basic salary and fees £000	Bonus £000	Benefits £000	Total emoluments 12 months 2015/16 £000	Pension contributions 12 months 2015/16 £000	Total emoluments 13 months 2014/15 £000	Pension contributions 13 months 2014/15 £000
Executive							
Martin Whitaker	160	80	–	240	8	120	–
Ian Ardill[1]	130	65	–	195	7	25	–
Richard Ross[2]	–	–	–	–	–	–	–
Non-executive							
Peter Allen[3]	45	–	–	45	–	–	–
John Goddard[4]	10	–	–	10	–	–	–
Alan Raymond[1,7]	29	–	–	29	–	3	–
Sam Williams[5]	15	–	–	15	–	–	–
	389	145	–	534	15	148	–

Directors' emoluments include emoluments due to the directors of Diurnal Group plc. 2014 amounts represent emoluments paid to the current directors of the historic group and are presented for comparative purposes.

1. *Appointed to Diurnal Limited 22 April 2015.*
2. *Employed by the University of Sheffield and no emoluments paid. A secondment agreement and a research agreement with the University cover his activities for the Group in addition to his Director's service agreement.*
3. *Appointed to Diurnal Limited 1 July 2015. Current annual fee £50,000.*
4. *Appointed 6 November 2015. Part of John Goddard's annual fee for the three years from joining is payable in shares via a share award granted on 12 April 2016. Current cash annual fee £15,000.*
5. *Director's fee paid to IP Group plc. Director nominated by the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%. Current annual fee £28,800.*
6. *Bonus figures represent the bonus payable in cash in relation to the 2015/16 financial year. Deferred share awards will be made following the issue of the Annual Report in October 2016. These will be made based on the following values which will be adjusted as necessary to neutralise the cost of exercise as nominal cost options: Martin Whitaker (£80k) and Ian Ardill (£26k).*
7. *Current annual fee £28,800.*

Directors' share options and awards

Directors holding office at 30 June 2016 had the following options outstanding over ordinary shares:

Date of grant/award	Exercise price	At 1 Jul 2015	Granted in the year	Exercised	Lapsed	At 30 Jun 2016	Latest vesting date
Executive							
Martin Whitaker							
1 Jul 2008 Option grant	£0.002	44,500	–	–	–	44,500	Vested
1 Dec 2008 Option grant	£0.002	55,000	–	–	–	55,000	Vested
17 Feb 2010 Option grant	£0.002	75,000	–	–	–	75,000	Vested
20 Jul 2011 Option grant	£0.002	50,000	–	–	–	50,000	Vested
22 Aug 2012 Option grant	£0.002	200,000	–	–	–	200,000	Vested
11 Sep 2015 Option grant	£0.4377	–	495,000	–	–	495,000	11 Sep 2018
		424,500	495,000	–	–	919,500	
Ian Ardill							
11 Sep 2015 Option grant	£0.4377	–	330,000	–	–	330,000	11 Sep 2018
		–	330,000	–	–	330,000	
Richard Ross							
1 Jul 2008 Option grant	£0.002	862,000	–	–	–	862,000	Vested
22 Aug 2012 Option grant	£0.002	157,000	–	–	–	157,000	Vested
23 Sep 2015 Option grant	£0.002	–	330,000	–	–	330,000	23 Sep 2018
		1,019,000	330,000	–	–	1,349,000	
Non-executive							
Peter Allen							
23 Sep 2015 Option grant	£0.002	–	69,000	–	–	69,000	23 Sep 2018
12 Apr 2016 Option grant	£0.002	–	104,421	–	–	104,421	24 Dec 2018
		–	173,421	–	–	173,421	
John Goddard							
12 Apr 2016 Share award[1]	£0.05	–	32,374	–	–	32,374	24 Dec 2018
		–	32,374	–	–	32,374	

1. *The Share awards made to John Goddard are exercisable as follows: 10,791 on 24 Jun 2017, 10,791 on 24 Dec 2017 and 10,792 on 24 Dec 2018.*

Historical share options granted prior to the Company's incorporation on 28 October 2015, by Diurnal Limited, have been exchanged into options of Diurnal Group plc and are shown in the table above as if they always had been options of Diurnal Group plc.

All share options have a ten year life.

On behalf of the Board

Alan Raymond
Remuneration Committee Chairman
11 October 2016

Independent auditor's report to the members of Diurnal Group plc

We have audited the financial statements of Diurnal Group plc for the year ended 30 June 2016 set out on pages 26 to 50. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanation we require for our audit.

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

11 October 2016

Consolidated income statement

for the year ended 30 June 2016

	Note	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Research and development expenditure		(3,886)	(2,227)
Administrative expenses	4	(3,106)	(1,000)
Other operating income		–	241
Operating loss		(6,992)	(2,986)
Financial income	6	63	8
Financial expense	7	(133)	(41)
Loss before tax		(7,062)	(3,019)
Taxation	8	491	81
Loss for the period		(6,571)	(2,938)
Basic and diluted loss per share (pence per share)	9	(15.0)	(8.5)

All activities relate to continuing operations.

Consolidated statement of comprehensive income

for the year ended 30 June 2016

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Loss for the period	(6,571)	(2,938)

Consolidated balance sheet

as at 30 June 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets	10	6	10
Property, plant and equipment	11	3	5
		9	15
Current assets			
Trade and other receivables	12	530	376
Held to maturity financial assets	13	14,000	–
Cash and cash equivalents	14	16,114	6,073
		30,644	6,449
Total assets		30,653	6,464
Current liabilities			
Loans and borrowings	16	–	(24)
Trade and other payables	15	(1,480)	(399)
		(1,480)	(423)
Non-current liabilities			
Loans and borrowings	16	(3,239)	–
		(3,239)	–
Total liabilities		(4,719)	(423)
Net assets		25,934	6,041
Equity			
Share capital	17	2,610	15,351
Share premium		23,632	–
Consolidation reserve		(2,943)	(2,943)
Other reserve		1,458	–
Retained earnings		1,177	(6,367)
Total equity		25,934	6,041

These financial statements were approved by the Board of Directors on 11 October 2016 and were signed on its behalf by:

Ian Ardill
Director
Company registered number: 09846650

Consolidated statement of changes in equity

for the year ended 30 June 2016

	Share Capital £000	Share Premium £000	Consolidation Reserve £000	Other Reserve £000	Retained Earnings £000	Total £000
Balance at 27 May 2014	15,351	–	(11,824)	–	(3,849)	(322)
Loss for the period and total comprehensive loss for the period	–	–	–	–	(2,938)	(2,938)
Equity settled share based payment transactions	–	–	–	–	20	20
Reduction of Capital	–	–	–	–	400	400
Contributions by owners[1]	–	–	8,881	–	–	8,881
Total transactions with owners recorded directly in equity	–	–	8,881	–	420	9,301
Balance at 30 June 2015	15,351	–	(2,943)	–	(6,367)	6,041
Loss for the period and total comprehensive loss for the period	–	–	–	–	(6,571)	(6,571)
Equity settled share based payment transactions	–	–	–	–	490	490
Reduction of Capital	(12,107)	–	–	–	12,107	–
Issue of shares for cash	884	24,465	–	–	–	25,349
Costs charged against share premium	–	(833)	–	–	–	(833)
Equity component of convertible loan	–	–	–	1,486	–	1,486
Issue expenses of convertible loan	–	–	–	(28)	–	(28)
Repurchase of deferred shares	(1,518)	–	–	–	1,518	–
Total transactions with owners recorded directly in equity	(12,741)	23,632	–	1,458	14,115	26,464
Balance at 30 June 2016	2,610	23,632	(2,943)	1,458	1,177	25,934

Loss for the period is the only constituent of total comprehensive loss for each period so the period amounts are shown in the same line in the consolidated statement of changes in equity.

1. *Contributions by owners relate to shares issued by Diurnal Limited prior to the incorporation of Diurnal Group plc. Under the principles of reverse acquisition accounting this is taken to consolidation reserve in the consolidated financial statements.*

Consolidated cash flow statement

for the year ended 30 June 2016

	Note	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Cash flows from operating activities			
Loss for the period		(6,571)	(2,938)
Adjustments for:			
Depreciation, amortisation and impairment		6	7
Share-based payment	18	490	20
Financial income	6	(63)	(8)
Finance expenses	7	133	41
Taxation	8	(491)	(81)
Increase in trade and other receivables		(135)	(261)
Increase in trade and other payables		1,081	284
Cash flow used in operations		(5,550)	(2,936)
Interest paid		–	(1)
Tax received	8	491	81
Net cash used in operating activities		(5,059)	(2,856)
Cash flows from investing activities			
Additions of property, plant and equipment		–	(5)
Purchases of held to maturity financial assets		(14,000)	–
Interest received		44	8
Net cash (used in)/from investing activities		(13,956)	3
Cash flows from financing activities			
Net proceeds from issue of share capital		24,516	8,000
Repayment of borrowings		(24)	(25)
Net proceeds from issue of borrowings		4,564	–
Net cash generated by financing activities		29,056	7,975
Net increase in cash and cash equivalents		10,041	5,122
Cash and cash equivalents at the start of the period		6,073	951
Cash and cash equivalents at the end of the period		16,114	6,073

1 General information

Diurnal Group plc ('the Company') and its subsidiary (together 'the Group') are a clinical stage specialty pharmaceutical business targeting patient needs in chronic endocrine (hormonal) diseases which the Company believes are currently not met satisfactorily by existing treatments. It has identified a number of specialist endocrinology market opportunities in Europe and the US that are together estimated to be worth more than $11bn per annum.

The Company is a public limited company incorporated and domiciled in the UK. Its registered number is 09846650. The address of its registered office is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ and its primary and sole listing is on the Alternative Investments Market (AIM). The Company was incorporated as Project Dime Limited on 28 October 2015 and reregistered as a public company and changed its name to Diurnal Group plc on 4 December 2015.

On 21 December 2015 the Company published its AIM Admission Document following its successful £30m fundraising. Its ordinary shares of 5 pence each were admitted to trading on the AIM market on 24 December 2015.

The Company issued 17,603,759 shares at a price of £1.44 per share to raise £25.3m before expenses and received £4.7m before expenses under a convertible loan from IP2IPO Limited, one of its shareholders. Total expenses of the IPO and fundraising were £1.5m, of which £0.8m were directly attributable to the issue of the new shares and have been charged to the Share Premium account. £59k and £28k have been charged against the convertible loan liability and its equity component respectively. The balance of £0.6m has been charged to the Consolidated Income Statement and included within administrative expenses in the period ended 30 June 2016.

To facilitate the IPO, the Company was incorporated on 28 October 2015 and acquired the entire issued share capital of Diurnal Limited under a share for share exchange on 1 December 2015. The Company has applied the principles of reverse acquisition accounting in the preparation of the consolidated financial information.

2 Significant accounting policies and basis of preparation

2.1 Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Foreign currency

Transactions in foreign currencies are translated to the Group's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The liability component is fair valued using appropriate valuation assumptions and the remaining amount is deemed to be the equity component.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, held to maturity financial assets, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Held to maturity financial assets

Held to maturity financial assets comprise term deposits with an original maturity of more than three months.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and term deposits with an original maturity of less than three months.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Intangible assets

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure is capitalised as an intangible asset only if the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefit;
- the development cost of the asset can be measured reliably;
- it meets the company's criteria for technical and commercial feasibility; and
- sufficient resources are available to meet the development to either sell or use as an asset

The Group's activities are not considered to meet all of the conditions above and therefore all related expenditure has been recognised as an expense in the income statement; there has been no capitalisation of research and development costs.

Expenditure in relation to patents registration and renewal of current patents are also expensed in the income statement. Patents acquired or licensed from third parties of patents are capitalised as intangible assets and are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the patents. Patent assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Patents and licences	10 years

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Cost comprises the purchase price plus any incidental costs of acquisition and commissioning. Depreciation is calculated to write-off the cost, less residual value, in equal annual instalments over their estimated useful lives as follows:

Equipment	3 years

The residual value, if not insignificant, is reassessed annually.

Expenses

Financing income and expenses

Financing expenses comprise interest payable and finance charges on shares classified as liabilities. Financing income comprise interest receivable on funds invested and dividend income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. UK R&D Tax Credits that are payable to the company are recognised on a cash received basis.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Employee benefits

Share-based payments

In accordance with IFRS 2 'Share-based Payment', share options are measured at fair value at their grant date. The fair value for the majority of the options is calculated using the Black-Scholes formula and charged to the Income Statement on a straight-line basis over the expected vesting period. At each year end date, the Company revises its estimate of the number of options that are expected to become exercisable. This estimate is not revised according to estimates of changes in market based conditions. A deemed grant date of the first day of the financial year in which performance must be achieved is assumed, in order to account for share awards under the deferred share element of the annual bonus scheme.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary. If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend.

Post retirement benefits

The Group is in the process of establishing a defined contribution pension scheme. Contributions to the personal pension scheme will be expensed as they fall due. Ahead of the establishment of the pension scheme, the Group has created a accrual for contributions that were payable in the period.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. In addition to the pension contribution provision, the Group has created a provision for the employer national insurance contributions due on share-based payments that are not HMRC tax advantaged.

Operating income

Grant income is in relation to government grants and is recognised when there is reasonable assurance that the physical payment will be received and the attached conditions have been complied with. When the grant relates to an expense item, it is recognised as other operating income on a systematic basis over the time periods that the costs, which it is intended to compensate, are expensed.

2.2 Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006. The financial information contained in these financial statements have been prepared under the historical cost convention, and on a going concern basis.

The accounting policies used in the financial information are consistent with those set out in the AIM Admission document dated 21 December 2015. The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRS 14 Regulatory Deferral Accounts (effective date to be confirmed).
- IFRS 15 Revenue from Contract with Customers (effective date to be confirmed).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date to be confirmed).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed).
- Disclosure Initiative – Amendments to IAS 1 (effective date to be confirmed).

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

2.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in Note 2.1, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements relate to the share options and deferred share bonus awards, which are described in Note 18 and to the convertible loan, which is described in Note 16; the key judgement being the discount rate, assumed at 8%.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group has used a binomial model and makes assumptions that are based on market conditions existing at each statement of financial position date. These comprise level 2 financial instruments.

Capitalisation of development costs

Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will only be made where there is evidence that an economic benefit will flow to the company. To date no development costs have been capitalised and all costs have been expenses to the income statement as research and development expenditure.

Deferred tax assets

Estimates of future profitability are required for the decision whether or not to create a deferred tax asset. To date no deferred tax assets have been recognised.

2.4 Going concern

At 30 June 2016, the Group had cash resources (being cash and cash equivalents and held to maturity financial assets) of £30.1m and the only external debt consists of a convertible loan with a face value of £4.7m, repayable or convertible by 24 December 2020 or as otherwise agreed between the parties. After making enquiries and taking into account management's estimate of future expenditure, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operation for the foreseeable future.

2.5 Summary of impact of Group restructure and Initial Public Offering

On 24 December 2015, the Company listed its shares on AIM. In preparation for this Initial Public Offering ('IPO') the Group was restructured. The restructure has impacted a number of the current year and comparative primary financial statements and notes.

For the consolidated financial statements of the Group, prepared under IFRS, the principles of reverse acquisition accounting under IFRS 3 'Business Combinations' have been applied. The steps to restructure the Group had the effect of Diurnal Group plc being inserted above Diurnal Limited as the holder of the Diurnal Limited share capital.

By applying the principles of reverse acquisition accounting, the Group is presented as if Diurnal Group plc has always owned Diurnal Limited. The comparative Income Statement and Balance Sheet are presented in line with the previously presented Diurnal Limited position. The comparative and current year consolidated reserves of the Group are adjusted to reflect the statutory share capital and share premium of Diurnal Group plc as if it had always existed, adjusted for movements in the underlying Diurnal Limited share capital and reserves until the share for share exchange.

The steps taken to restructure the Group are explained in more detail in the Group Reorganisation section below. The impact on the primary consolidated financial statements is as follows:

- Equity reflects the capital structure of Diurnal Group plc. As part of the restructuring of the Group and the IPO, a number of shares in Diurnal Group plc were issued in exchange for cash. The premium arising on the issue of shares is allocated to share premium.
- A consolidation reserve was created and reflects the difference between the Diurnal Group plc reserves at the balance sheet date as reflected in the opening reserves at the start of the comparative period (28 May 2014) and the equity of Diurnal Limited at the same date.

Fees associated with the IPO are allocated to share premium and the Consolidated Income Statement depending on the nature of the costs.

Group reorganisation

Prior to IPO the Group undertook a reorganisation in preparation for the transaction.

The effect of this reorganisation was to insert a new ultimate parent company, Diurnal Group plc, into the Group. This company acquired the entire issued share capital of Diurnal Limited, as summarised below.

Diurnal Group plc became the ultimate parent company of the Group by acquiring Diurnal Limited in exchange for the issue of new shares.

The key steps of the process were as follows:

- On incorporation on 28 October 2015, 1 Ordinary share of £1 was allotted and issued.
- On 1 December 2015, a number of further changes to the share capital occurred:
  - a share subdivision whereby the ordinary share of £1 each was subdivided into 2 Ordinary shares of 50 pence each;
  - in accordance with the terms of a share for share exchange agreement, the allotment and issue of 30,267,498 ordinary shares of 50 pence each and 4,395,000 B shares of 5 pence each in consideration for the entire issued share capital of Diurnal Limited. Following the conclusion of this share for share exchange, which involved nil cash consideration, Diurnal Limited became a wholly owned subsidiary undertaking of the Company;
  - the nominal value of the 30,267,498 ordinary shares of 50 pence were reduced to 10 pence.

- On 23 December 2015, 83,038 ordinary shares of 10 pence each were allotted and issued to the Enterprise Investment Scheme investors participating in the IPO placing of shares.
- On 24 December, 30,350,538 ordinary shares of 10 pence each were subdivided and reclassified into 30,350,538 ordinary shares of 5 pence each and 30,350,538 deferred share of 5 pence each. Thereafter, a number of further changes to the share capital occurred, which were conditional upon and immediately prior to admission of the Company's shares to trading on AIM and simultaneous with each other:
  - the conversion of 4,339,500 B shares of 5 pence each into 4,339,500 ordinary shares of 5 pence each;
  - the reduction of the Company's share capital by £1,517,526.90 representing the aggregate nominal value of the 30,350,538 deferred share of 5 pence each, as a result of the transfer of the deferred shares to the Company for nil consideration and their subsequent cancellation;
  - the allotment and issue of 17,520,721 ordinary shares of 5 pence each to investors participating in the IPO placing of shares.

3 Segmental information

The Board regularly reviews the Company's performance and balance sheet position for its operations and receives financial information for the group as a whole. As a consequence the Group has one reportable segment, which is Clinical Development. Segmental profit is measured at operating loss level, as shown on the face of the Income Statement. As there is only one reportable segment whose losses, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the financial statements, no additional numerical disclosures are necessary.

4 Expenses and auditor's remuneration

Loss for the year is after charging:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Depreciation	2	3
Amortisation	4	4
Research & development expenditure	3,886	2,227
Auditor's remuneration		
– fees payable to Company auditor for the audit of the parent company and consolidated financial statements	19	–
– auditing the accounts of the subsidiary pursuant to legislation	5	3
– reporting under Companies Act section 92 on the conversion to a public limited company	2	–
Other services		
– transaction services fees in relation to the IPO	103	–
– tax fees in relation to the IPO	27	–
Total auditor's remuneration	156	3

A number of one-off, share option related and non-cash items, totalling £1.5m, are analysed in the following table:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Research and development expenditure		
IFRS2 equity settled share based payment transactions – non-cash	188	–
Employer NIC provision on unapproved share options – initial recognition of historical liability	258	–
	446	–
Administrative expenses		
Expenses of the initial public offering – one-off	623	–
IFRS2 equity settled share based payment transactions – non-cash	302	20
Employer NIC provision on unapproved share options – initial recognition of historical liability	119	–
	1,044	20

5 Staff costs

The average number of persons employed by the Group (including Executive and Non-executive Directors) during the year, analysed by category, was as follows:

	12 months ended 30 Jun 2016 Number	13 months ended 30 Jun 2015 Number
Research & Development	4	4
Administration	4	1
	8	5
Non-executive Directors	4	2
	12	7

Their aggregate remuneration comprised:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
The aggregate remuneration, including Non-executive Directors, comprised:		
Wages and salaries	723	328
Non-executive Director fees	99	31
Social security	97	39
Pension	27	–
Other benefits	7	–
Share based payments (see note 18)	490	20
	1,443	418

Details of Director's remuneration and the highest paid director can be found in the Remuneration Report. Key management personnel comprise only the Directors of the Company.

6 Finance income

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Interest receivable on cash and cash equivalents and term deposits	63	8
Total finance income	63	8

7 Finance expenses

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Total interest payable on loans	133	1
Total interest expenses on financial liabilities measured at amortised cost	–	34
Total fair value losses on derivative financial liabilities	–	6
Total finance expense	133	41

8 Taxation

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Current tax		
– current year	(491)	(81)
Tax credit charge for the period	(491)	(81)

The tax credits assessed for the periods ended 30 June 2015 and 2016 relate entirely to R&D tax credit relief.

Reconciliation of total tax expense:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
The tax assessed for the year varies from the small company rate of corporation tax as explained below		
Loss on ordinary activities before tax	(7,062)	(3,019)
Tax at the standard rate of UK corporation tax rate of 20% (2014/15: 20%)	(1,412)	(604)
Research and development tax credit	(491)	(81)
Non-deductible expenses	104	41
Current year losses for which no deferred tax asset was recognised	1,308	563
Tax credit for the period	(491)	(81)

The company has approximately £11.8m of trading losses carried forward at 30 June 2016 (2015: approximately £5.3m) for which no deferred tax asset has been recognised due to the uncertainty of availability of future taxable profits. The estimated value of the deferred tax asset not recognised, measured at a standard tax rate of 20% is £2.4m (2015: £1.1m at 20%).

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions from 20% to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015.

9 Loss per share

	12 months ended 30 Jun 2016	13 months ended 30 Jun 2015
Loss for the period (£000)	(6,571)	(2,938)
Weighted average number of shares (000)	43,746	34,607
Basic and diluted loss per share (pence per share)	(15.0)	(8.5)

The diluted loss per share is identical to the basic loss per share in all periods, as potentially dilutive shares are not treated as such since they would reduce the loss per share.

10 Intangible assets

	Patents and licences £000
Cost	
Balance at 28 May 2014	39
Additions	–
Balance at 30 June 2015	39
Additions	–
Balance 30 June 2016	39
Amortisation	
Balance at 28 May 2014	25
Charge for the period	4
Balance at 30 June 2015	29
Charge for the period	4
Balance at 30 June 2016	33
Net book value	
At 28 May 2014	14
At 30 June 2015	10
At 30 June 2016	6

11 Property, plant and equipment

	Equipment £000
Cost	
Balance at 28 May 2014	9
Additions	5
Balance at 30 June 2015	14
Additions	–
Balance 30 June 2016	14
Depreciation	
Balance at 28 May 2014	6
Charge for the period	3
Balance at 30 June 2015	9
Charge for the period	2
Balance at 30 June 2016	11
Net book value	
At 28 May 2014	3
At 30 June 2015	5
At 30 June 2016	3

12 Trade and other receivables

	2016 £000	2015 £000
VAT recoverable	37	48
Prepayments	345	77
Other debtors	148	251
	530	376

13 Held to maturity financial assets

	2016 £000	2015 £000
Bank term deposits	14,000	–

The effective interest rate on bank deposits was 1.05% and these deposits had a weighted average maturity of 11 months. The Group's treasury policy requires that deposits are held with financial institutions having a minimum credit rating of A- (from Moody's S&P or Fitch), that individual counterparty exposure is no more than £8m and that the maximum term is 12 months. The Group's deposits are in line with this policy.

14 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and on hand	16,114	6,073

The Group holds its cash and cash equivalents with its clearing bank and in a AAA rated Liquidity fund providing same day access to its cash. The Group's treasury policy is summarised in Note 19. Although the Liquidity fund balance exceeds the £8m counterparty limit, the Board is satisfied that the individual counterparty risk within the fund is significantly below this amount.

15 Trade and other payables

	2016 £000	2015 £000
Trade payables	235	274
Other tax and social security	36	26
Accrued expenses and deferred income	1,209	99
	1,480	399

16 Loans and borrowings

	2016 £000	2015 £000
Current loans and borrowings		
Other current loans	–	24
Non-current loans and borrowings		
Convertible Loans	3,239	–
Total loans and borrowings	3,239	24

IP Group convertible loan

On 24 December 2015 the Company received £4.7m from IP2IPO Limited, a wholly owned subsidiary of IP Group plc under a convertible loan agreement. The convertible loan facility is interest-free and unsecured with a maturity date of 24 December 2020 (or such other date as the parties may agree) at which point the Company may either repay the principal amount outstanding in full or convert such amount into non-voting shares at a lower nominal value to that of the Ordinary Shares to ensure that IP2IPO Limited did not have control of the Company. IP2IPO Limited may convert the principal outstanding in whole or in parts exceeding £0.1m into ordinary shares calculated at the IPO share price of £1.44 per share conditional on it not having control of the Company resulting from the conversion.

The convertible loan note is a compound financial instrument containing a host financial liability and an equity component as there is a contractual obligation to deliver a fixed number of shares at the IPO price if the loan note is converted.

At 30 June 2016, the amount outstanding comprised:

	2016 £000	2015 £000
Face value of convertible loan issued on 24 December 2015	4,651	–
Equity Component	(1,486)	–
Issue costs relating to the liability element	(59)	–
Liability component on initial recognition at 31 December 2015	3,106	–
Accrued interest	133	–
Liability component at 31 December 2015	3,239	–
Less amount included in current liabilities	–	–
Included in non-current liabilities	3,239	–

17 Share capital

	2016 £000	2015 £000
52,210,759 ordinary shares of £0.05 each	2,610	–
30,267,498 ordinary shares of £0.50 each	–	15,134
4,339,500 B shares of £0.05 each	–	217
	2,610	15,351

The Group has applied the principles of reverse acquisition accounting under IFRS 3 'Business Combinations' in the presentation of consolidated shareholders' equity for comparative periods. These comparative periods show the results of the accounting acquirer (Diurnal Limited) along with the share capital structure of the parent company (Diurnal Group plc). As a result, the consolidated share capital and share premium presented for comparative periods is that which was in existence immediately following the share for share exchange which occurred on 1 December 2015, and which is explained further in note 2.

	Number of Ordinary Shares	Number of B Shares	Number of Deferred Shares	Total £000
At 28 October 2015 on incorporation	1	–	–	–
Share subdivision on 1 December 2015	1	–	–	–
Issued on 1 December 2015	30,267,498	4,339,500	–	15,351
Share capital reduction on 1 December 2015	–	–	–	(12,107)
Issued on 23 December 2015	83,038	–	–	8
Share split on 24 December 2015	–	–	30,350,538	–
Conversion of B shares on 24 December 2015	4,339,500	(4,339,500)	–	–
Cancellation of Deferred shares on 24 December 2015	–	–	(30,350,538)	(1,518)
Issued on 24 December 2015	17,520,721	–	–	876
At 31 December 2015: Ordinary shares of 5 pence each	52,210,759	–	–	2,610

The changes in the share capital are described in Note 2 Significant accounting policies and basis of preparation.

18 Share based payments

At 30 June 2016, the Group had two types of share based payment awards. All outstanding Diurnal Limited awards have been exchanged for equivalent awards in Diurnal Group plc and the numbers and values in this note have been restated to reflect the group reorganisation and allow for consistency of analysis.

Share options

Share options have been issued over time as follows:

Diurnal Limited unapproved share options

Between 2007 and 2012, 1,898,500 share options were awarded to four individuals, being Executive and Non-executive Directors and a consultant. All these options vested prior to the AIM IPO.

In September 2015, 564,000 share options were awarded to three individuals, being Executive and Non-executive Directors and a consultant. These options vest in equal tranches on the first three anniversaries of their grant. No further awards are to be made.

Diurnal Limited share option scheme

1,273,500 share options awarded to eight individuals, being employees. These options vest in equal tranches on the first three anniversaries of their grant. No further awards are to be made.

Diurnal Group plc unapproved share options

104,421 share options and 32,374 share awards awarded to two individuals, being Non-executive Directors to whom commitments had been made prior to the AIM IPO. The options vest in equal tranches on the first three anniversaries of the AIM IPO and the awards vest in equal tranches on the 18, 24 and 36 month anniversaries of the AIM IPO. The awards are in lieu of part of the Director’s annual fees.

Diurnal Group plc Long Term Incentive Plan (LTIP)

The main scheme for future awards is the Diurnal Group plc Long Term Incentive Plan (LTIP). The LTIP was established on 21 December 2015 and is a discretionary plan pursuant to which awards may be made in the form of performance share awards, restricted share awards, deferred bonus awards and market value option awards. Benefits under the LTIP are not pensionable.

Eligibility

Any employee (including an Executive Director) of the Company and its subsidiaries will be eligible to participate in the LTIP at the discretion of the Remuneration Committee, subject to individual limits and grant timing requirements operated by the Remuneration Committee.

Performance conditions

The extent of vesting of any performance share awards or market value option awards granted will be subject to performance conditions set by the Remuneration Committee. No performance conditions shall apply in the case of restricted share awards and deferred bonus awards.

Vesting

Performance shares awards, restricted share awards and market value options normally vest on the third anniversary of grant or, if later, when the Remuneration Committee determines the extent to which any performance conditions have been satisfied. Deferred bonus awards normally vest on the first anniversary of grant. The Remuneration Committee may specify different vesting periods in relation to awards granted to participants who are not Executive Directors.

Where awards are granted in the form of options, once vested, such options will then be exercisable up until the tenth anniversary of grant (or such shorter period specified by the Remuneration Committee at the time of grant) unless they lapse earlier. Shorter exercise periods shall apply in the case of “good leavers” and/or vesting of awards in connection with corporate events.

IFRS 2 Valuation

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by using a Black Scholes valuation model, using the following inputs:

- The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the grants. As the Company’s share price history on AIM increases, it will be combined with the peer group volatility.
- The expected life is the average expected period to exercise, which has been taken as five years for share options and a shorter period for the share awards.
- The risk free rate of return is the yield as at the grant date on zero coupon UK government bonds of a term commensurate with the expected life.

Measurement assumptions are as follows:

Financial year ended	2016	2016	2016	2016
Deemed grant date	11 Sep 2015	23 Sep 2015	12 Apr 2016	12 Apr 2016
Award type	Share option	Share option	Share option	Share award
Share price	£0.625	£0.625	£1.470	£1.470
Exercise price	£0.438	£0.002	£0.002	£0.050
Expected volatility	65.0%	65.0%	67.6%	66.9%
Expected option life	5 years	5 years	5 years	2.7 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk free interest rate	1.22%	1.20%	0.81%	0.43%
Fair value per award	£0.392	£0.623	£1.468	£1.421
Number of options/awards	1,273,500	564,000	104,421	32,374

The number and weighted average exercise prices of the share options and awards are as follows:

	2016 Weighted average exercise price £	2016 Number of options	2015 Weighted average exercise price £	2015 Number of options
Outstanding at the beginning of the period	0.002	1,898,500	0.002	1,898,500
Granted during the period	0.284	1,974,295	–	–
Exercised during the period	–	–	–	–
Lapsed during the period	–	–	–	–
Outstanding at the end of the period	0.146	3,872,795	0.002	1,898,500
Exercisable at the end of the period	0.002	1,898,500	0.002	1,898,500

Deferred share bonus awards

The Group operates a discretionary annual bonus scheme, under which any annual bonus for Executive Directors and certain other employees will be paid in cash up to a specified target bonus level and (if relevant) in the form of "deferred share awards" in relation to the portion of any bonus in excess of such target bonus level. From 2016/17 this will change to a specified mix of cash and deferred share awards by individual.

Deferred share awards will be awarded under the deferred share award feature of the LTIP. The number of Ordinary Shares comprised within the deferred share awards will be set on grant to equal such number equal in value to the portion of the bonus being deferred (adjusted as necessary to neutralise the cost of exercise where awards are structured as nominal cost options). Such deferred share awards will ordinarily vest after one year, subject only to continued employment.

The Remuneration Committee will set performance targets for the annual bonus plan at the start of each financial year.

IFRS 2 Valuation

The fair value of services received in return for the deferred share award element of the annual bonus scheme is calculated at the start of the financial year to which the bonus relates, the deemed grant date, rather than at the actual grant date of the deferred share award (after publication of the Annual Report relating to the bonus year and is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by using a Black Scholes valuation model, using the following inputs:

- The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the grants. As the Company's share price history on AIM increases, it will be combined with the peer group volatility.
- The expected life is the average expected period to exercise, which has been taken as 34 months.
- The risk free rate of return is the yield as at the grant date on zero coupon UK government bonds of a term commensurate with the expected life.

Measurement assumptions are as follows:

Financial year ended	2016
Deemed grant date	1 Jul 2015
Award type	Deferred share bonus
Share price	£1.440
Exercise price	£0.050
Expected volatility	65.1%
Expected option life	3 years
Expected dividends	0.00%
Risk free interest rate	0.96%
Fair value per award	£1.391
Deemed number of options	90,421

The total expense recognised for share based payments is as follows:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Share options	446	20
Deferred share awards	44	–
	490	20

19 Financial instruments

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk. This note address each of these matters in turn, and also gives details of financial assets and liabilities with a carrying value that is materially different to their fair value and the company's capital management objectives.

Capital management

The Company considers capital to comprise the total equity and reserves of the Company and long term debt financing, including convertible loans issued. The Company's objectives are to manage capital as a primary source of funding in conjunction with the ability to remain as a going concern.

Treasury policy

The Company has financed its operations by a mixture of shareholders' funds and other borrowings and loan notes, as required. The Company's objective has been to obtain sufficient funding to meet development activities until the Company becomes profitable. During the period and for the foreseeable future the Company's objective in using financial instruments is to safeguard the principal for funds held on deposit and to minimise currency risk where appropriate.

Interest rate risk

The Company has an outstanding interest free convertible loan at 30 June 2016 with an outstanding principal amount of £4.7m (30 June 2015: £nil) and invests its surplus funds in money market and short-term bank deposits. The Company would review the balance between fixed and floating rate debt if it takes on any future debt.

Liquidity risk

The Company prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Company, to manage liquidity risk. The Company also ensures that sufficient funds are available on 24 hours' notice to fund the Company's immediate needs (see Note 2—Basis of Preparation).

The company finances its operations through the issue of equity shares. The company manages its liquidity risk by monitoring existing and committed funding against forecast requirements (with particular reference to non-discretionary expenditure). The following are the contractual maturities of financial liabilities, including estimated interest payments.

	30 Jun 2016					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	> 5 years £000
Trade payables	235	235	235	–	–	–
Borrowings[1]	3,239	4,651	–	–	4,651	–
	3,474	4,886	235	–	4,651	–
	30 Jun 2015					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	> 5 years £000
Trade payables	274	274	274	–	–	–
Borrowings	24	24	24	–	–	–
	298	298	298	–	–	–

Note 1: The convertible loan is included in the analysis, assuming repayment at the end of its five year contractual term, although the term can be extended by agreement between the Company and IP2IPO Limited, the lender and the loan could be converted into equity.

Currency risk

The company manages foreign currency exposure by matching expected currency outflows with inflows of the same currency to the extent possible. The company would consider hedging instruments if there was considered to be a significant mismatch but this has not proven necessary to date.

The following table considers the impact of several changes to the spot £/euro and US Dollar exchange rates of +/– 1%, assuming all other variables remain constant. If these changes were to occur the figures in the table below reflect the impact on loss before tax.

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
1% increase in Euro	(9)	(5)
1% decrease in Euro	9	5
1% increase in US Dollar	(6)	(2)
1% increase in US Dollar	6	2

Credit risk

The Company is exposed to credit risk from one source, namely its cash investments. The Company minimizes this risk by placing its cash deposits only with established financial institutions with a minimum credit rating of A- as defined by the three major credit rating agencies.

Interest rate risk of financial assets

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Held to maturity financial assets		
Fixed rate – GBP	1.05%	–
Cash and cash equivalents		
Floating rate – GBP	0.50%	0.15%
Floating rate – EUR	0.05%	0.05%

The following table considers the impact of a change of the sterling interest rate of +/– 1 basis point, assuming all other variables remain constant. If these changes were to occur the figures in the table below reflect the impact on loss before tax. The analysis covers financial instruments subject to variable interest rates and interest receivable only, as the Group's borrowings have been at fixed rates.

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
1% increase in Sterling interest rate	2	–
1% decrease in Sterling interest rate	(2)	–

Fair values

The carrying values of cash and cash equivalents, accounts receivable and accounts payable reasonably approximate their fair values. The compound financial instrument is classified as a level 2 financial instrument.

20 Capital commitments

The Group had no material capital commitments at the end of the financial periods.

21 Related party transactions

Transactions between the company and its subsidiary, which is a related party, have been eliminated on consolidation and are not disclosed in this note.

The following transactions with shareholders: subsidiaries of IP Group plc, Finance Wales Investments Limited, Ridings Early Growth Limited and Sarum Investment SICAV plc) and a company controlled by a former Director of the Group (Silenicus Limited) were recorded, excluding VAT, during the period:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Purchase of goods and services		
Silenicus Limited	–	26
IP Group plc and subsidiaries	116	158
Finance Wales Investments Limited	12	83
Ridings Early Growth Limited,	2	4
Sarum Investment SICAV Plc	–	3
Simm Investments Limited/Geoff Tucker	–	2
	130	276

Purchase of goods and services from related parties comprise management and consulting services, corporate finance, recruitment, provision of Non-executive Director, monitoring fees together with expenses. These were made at arm's length and on normal commercial trading terms.

Compensation of key management personnel of the Group

Key management includes only executive and non-executive directors and information on their share options, emoluments, pension benefits and other non-cash benefits can be found in the Remuneration Report.

Equity investments in Diurnal Limited before the acquisition by Diurnal Group plc

On 29 July 2014 the following Related Parties received ordinary shares from the conversion of the principal and accrued interest on loan notes held by them: IP Group plc subsidiaries, 2,940 shares for £699,741 of debt; Finance Wales, 2,136 shares for £508,476 of debt; Ridings Early Growth Limited, 91 shares for £21,754 of debt and Richard Ross 44 shares for £10,514 of debt.

On 29 July 2014 the following Related Parties received ordinary shares from the conversion of preference shares and accrued dividend on preference shares held by them: IP Group plc subsidiaries, 1,194 shares for £373,132 of preference shares; Finance Wales, 253 shares for £79,139 of preference shares and Ridings Early Growth Limited, 84 shares for £26,379 of preference shares.

On 1 August 2014 the following Related Parties purchased the Company's shares for cash: IP Group plc subsidiaries, 715 ordinary shares and 699 B shares for £665,611; Finance Wales, 938 shares for £293,256 and Ridings Early Growth Limited, 54 shares for £16,883.

On 17 December 2014 the following Related Parties purchased the Company's shares for cash: IP Group plc subsidiaries, 3,573 ordinary shares and 3,692 B shares for £3,888,392; Finance Wales, 4,692 shares for £1,466,907 and Ridings Early Growth Limited, 75 shares for £23,448.

On 26 May 2015, the following Related Parties purchased the Company's shares for cash: IP Group plc subsidiaries, 3,908 ordinary shares for £1,221,797; Finance Wales, 1,864 shares for £582,761 and Sarum Investment SICAV Plc, 340 shares for £106,298.

Equity investments in Diurnal Group plc

On 24 December 2015 the following Related Parties purchased the Company's shares for cash: IP Group plc subsidiaries, 5,624,600 ordinary shares for £8,099,424; Finance Wales, 1,388,888 shares for £1,999,999; Richard Ross, 6,944 shares for £9,999; Peter Allen, 34,722 shares for £50,000; John Goddard, 6,944 shares for £9,999; Alan Raymond, 13,888 shares for £19,999; Martin Whitaker, 11,111 shares for £16,000 and Ian Ardill, 13,888 shares for £19,999. IP Group's 4,399,500 B shares were also converted into ordinary shares on this date.

Convertible loan agreement

IP2IPO Limited, a wholly owned subsidiary of IP Group plc provided the Company with £4,659,588 of debt financing under a convertible loan agreement. The convertible loan facility is interest-free and unsecured with a maturity date of 24 December 2020 (or such other date as the parties may agree) at which point the Company may either repay the principal amount outstanding in full or convert such amount into non-voting shares at a lower nominal value to that of the Ordinary Shares to ensure that IP2IPO Limited did not have control of the Company. IP2IPO Limited may convert the principal outstanding in whole or in parts exceeding £0.1m into ordinary shares calculated at the IPO share price of £1.44 per share conditional on it not having control of the Company resulting from the conversion.

22 Ultimate controlling party

The Directors do not believe that there is an ultimate controlling party.

Company balance sheet

as at 30 June 2016

	Note	2016 £000
Non-current assets		
Investments	C3	15,351
		15,351
Current assets		
Trade and other receivables	C4	136
Held to maturity financial assets	13	14,000
Cash and cash equivalents		15,005
		29,141
Total assets		44,492
Current liabilities		
Trade and other payables	C5	(98)
		(98)
Non-current liabilities		
Loans and borrowings	16	(3,239)
		(3,239)
Total liabilities		(3,337)
Net assets/(liabilities)		41,155
Equity		
Share capital	C6	2,610
Share premium		23,632
Other reserve		1,458
Retained earnings		13,455
Total equity		41,155

These financial statements were approved by the Board of Directors on 11 October 2016 and were signed on its behalf by:

Ian Ardill
Director
Company registered number: 05237326

Company statement of changes in equity

for the period ended 30 June 2016

	Share Capital £000	Share Premium £000	Other Reserve £000	Retained Earnings £000	Total £000
Balance at incorporation 28 October 2015	–	–	–	–	–
Loss for the period and total comprehensive loss for the period	–	–	–	(533)	(533)
Equity settled share based payment transactions	–	–	–	363	363
Issue of shares for acquisition	15,351	–	–	–	15,351
Reduction of Capital	(12,107)	–	–	12,107	–
Issue of shares for cash	884	24,465	–	–	25,349
Costs charged against share premium	–	(833)	–	–	(833)
Equity component of convertible loan	–	–	1,486	–	1,486
Issue expenses of convertible loan	–	–	(28)	–	(28)
Repurchase of deferred shares	(1,518)	–	–	1,518	–
Total transactions with owners recorded directly in equity	2,610	23,632	1,458	13,988	41,688
Balance at 30 June 2016	2,610	23,632	1,458	13,455	41,155

Loss for the period is the only constituent of total comprehensive loss for each period so the period amounts are shown in the same line in the consolidated statement of changes in equity.

Company cash flow statement
for the period ended 30 June 2016

	Note	8 months ended 30 Jun 2016 £000
Cash flows from operating activities		
Loss for the period		(533)
Adjustments for:		
Share-based payment		363
Financial income		(23)
Finance expenses	7	133
Increase in trade and other receivables		–
Increase in trade and other payables		98
Cash flow from operating activities		38
Interest paid		–
Net cash used in operating activities		38
Cash flows from investing activities		
Purchase of held to maturity financial assets		(14,000)
Loan to subsidiary undertaking		(117)
Interest received		4
Net cash from investing activities		(14,113)
Cash flows from financing activities		
Net proceeds from issue of share capital		24,516
Net proceeds from issue of borrowings		4,564
Net cash generated by financing activities		29,080
Net increase in cash and cash equivalents		15,005
Cash and cash equivalents at the start of the period		–
Cash and cash equivalents at the end of the period		15,005

Notes to the company financial statements

C1 Principal accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006 and in accordance with FRS101 Reduced Disclosure Framework.

The principal accounting policies adopted are the same as for those set out in the Group's financial statements.

C2 Company results

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company's statement of comprehensive income. The parent Company's result for the period ended 30 June 2016 was a loss of £533k.

The audit fee for the Company is set out in note 4 of the Group's financial statements.

C3 Investment in subsidiary undertakings

On 1 December 2015, the Company acquired 100% of the shares and voting rights of Diurnal Limited, a company incorporated and registered in the United Kingdom, by issuing shares of 30,267,498 ordinary shares of 50 pence each and 4,385,000 B shares of 5 pence each. The carrying value of the investment is £15,351k and has not been impaired. Diurnal Limited is engaged in specialty pharmaceuticals. The Company has no other related undertakings.

During the current year an impairment review of the investment in and loan to subsidiary was undertaken. No impairment has been made to investments in or loan to the subsidiary undertaking in 2015/16. The fair value of the subsidiary company less costs to sell exceed the combined carrying values of the investment and the loan.

	2016 £000
Cost	
At 28 October 2015	–
Additions	15,351
At 30 June 2016	15,351
Impairment	
At 28 October 2015	–
At 30 June 2016	–
Carrying value at 28 October 2015	–
Carrying value at 30 June 2016	15,351

C4 Trade and other receivables

	2016 £000
Amount owed by subsidiary undertaking	117
VAT recoverable	–
Prepayments	19
Other debtors	–
	136

C5 Trade and other payables

	2016 £000
Trade payables	4
Other tax and social security	–
Accrued expenses and deferred income	94
	98

C6 Share capital

	2016 £000
52,210,759 ordinary shares of £0.05 each	2,610

C7 Related party transactions

The Company made management recharges to its subsidiary and related party, Diurnal Limited, which totalled £457k during the period.

The following transactions with shareholders of the Group were recorded, excluding VAT, during the period:

	8 months ended 30 Jun 2016 £000
Purchase of goods and services	
IP Group plc	60
	60

Compensation of key management personnel of the Company

Key management includes only executive and non-executive directors and information on their share options, emoluments, pension benefits and other non-cash benefits can be found in the Remuneration Report.

Shareholder Information

Company information

Directors

Peter Allen	Chairman
Martin Whitaker	Chief Executive Officer
Ian Ardill	Chief Financial Officer
Richard Ross	Chief Scientific Officer
John Goddard	Non-executive Director
Alan Raymond	Non-executive Director
Sam Williams	Non-executive Director

Company Secretary
Ian Ardill

Website
www.diurnal.co.uk

Registered Number
09846650

Registered Office
Diurnal Group plc
Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ
Telephone: 02920 682069

Annual General Meeting
To be held at the offices of:
FTI Consulting
200 Aldersgate
Aldersgate Street
London
EC1A 4HD
On 23 November 2016 at 11.00 am

Adviser information

Nominated Adviser and Corporate Broker
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

Registrar
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Public Relations Adviser
FTI Consulting
200 Aldersgate
Aldersgate Street
London
EC1A 4HD

Independent Auditors
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Legal Adviser
Eversheds LLP
One Wood Street
London
EC2V 7WS

Principal Banker
National Westminster Bank plc
244 Fulwood Road
Sheffield
S10 3AA

DIURNAL GROUP PLC

(Incorporated in England and Wales with registered number 9846650)

Notice is given that the 2016 annual general meeting of Diurnal Group plc (the "**Company**") will be held at the offices of FTI Consulting LLP, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD on Wednesday 23 November 2016 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Company's audited annual report and accounts and the strategic report and directors' and auditors' reports thereon for the year ended 30 June 2016.
2. To reappoint Peter Allen, who retires as a director of the Company and offers himself for reappointment.
3. To reappoint Ian Ardill, who retires as a director of the Company and offers himself for reappointment.
4. To reappoint John Goddard, who retires as a director of the Company and offers himself for reappointment.
5. To reappoint Alan Raymond, who retires as a director of the Company and offers himself for reappointment.
6. To reappoint Richard Ross, who retires as a director of the Company and offers himself for reappointment.
7. To reappoint Martin Whitaker, who retires as a director of the Company and offers himself for reappointment.
8. To reappoint Sam Williams, who retires as a director of the Company and offers himself for reappointment.
9. To receive and approve the directors' remuneration report contained within the annual report and accounts for the year ended 30 June 2016.
10. To reappoint KPMG LLP as auditors of the Company from the conclusion of this annual general meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid.
11. To authorise the directors or any audit committee of the directors to determine the remuneration of the auditors.
12. That, pursuant to section 551 of the Companies Act 2006 (the "**Act**"), the directors be generally and unconditionally authorised to allot Relevant Securities:

    12.1 up to a maximum aggregate nominal value of £870,179.30 or, if less, the nominal value of one third of the issued share capital of the Company; and

    12.2 comprising equity securities (as defined in section 560(1) of the Act) up to a maximum aggregate nominal value of £1,740,358.60 or, if less, the nominal value of two thirds of the issued share capital of the Company (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 12.1) in connection with an offer by way of a rights issue or other pre-emptive offer:

    12.2.1 to holders of ordinary shares in the capital of the Company ("**Ordinary Shares**") in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

    12.2.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

    but subject, in each case, to such exclusions, limitations, restrictions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter,

    provided that these authorities shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 23 February 2018 (whichever is the earlier), save that, in each case, the Company may make an offer or enter into an agreement before the authority expires which would or might require Relevant Securities to be allotted and/or transferred after the authority expires and the directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired.

    In this resolution, "**Relevant Securities**" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount or nominal value of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount or nominal value of the shares which may be allotted pursuant to that right.

    These authorities are in substitution for all existing authorities under section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

To consider and, if thought fit, to pass the following resolutions as special resolutions:

13. That, subject to the passing of resolution 12 and pursuant to section 570 of the Act, the directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 12 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    13.1 in connection with an offer or issue of equity securities (whether by way of a rights issue, open offer or otherwise):

    13.1.1 to holders of Ordinary Shares in proportion (as nearly as practicable) to the respective numbers of Ordinary Shares held by them; and

    13.1.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

    but subject, in each case, to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and

    13.2 otherwise than pursuant to paragraph 13.1 of this resolution up to an aggregate nominal amount of £261,053.75 (being equivalent to 10 per cent. of the nominal value of the issued share capital of the Company),

    and this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 23 February 2018 (whichever is the earlier), save that the Company may make an offer or enter into an agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

    This power is in substitution for all existing powers under section 570 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

14. That, the Company be generally and unconditionally authorised, pursuant to section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of up to 7,826,392 Ordinary Shares (being approximately 14.99 per cent 14.99 per cent of the issued ordinary share capital of the Company) on such terms and in such manner as the directors may from time to time determine, provided that:

    14.1 the maximum price which may be paid for each share (exclusive of expenses) shall not be more than the higher of: (1) five per cent, above the average mid-market price of the Ordinary Shares for the five business days before the date on which the contract for the purchase is made, and (2) an amount equal to the higher of the price of the last independent trade and the highest current independent bid as derived from the trading venue where the purchase was carried out; and

    14.2 the minimum price which may be paid for each share shall not be less than £0.05 per share, being the nominal value of an Ordinary Share,

    and this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 23 February 2018 (whichever is the earlier), save that the Company may make a contract to purchase its own shares before this authority expires which would or might be executed wholly or partly after such expiry, and the Company may make a purchase of its own shares in pursuance of such contract as if this authority had not expired.

By order of the board
Ian Ardill
Secretary
11 October 2016

Registered office
Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

Registered in England and Wales No. 09846650

Notes

Entitlement to attend and vote

1. The right to vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the Company as at close of business on 21 November 2016 (or, if the meeting is adjourned, on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

2. A "vote withheld" is not a vote in law, which means that the vote will not be counted in the calculation of votes "for" or "against" the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the annual general meeting.

Proxies

3. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company.

   A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.

   A proxy may only be appointed in accordance with the procedures set out in notes 3 and 4 below and the notes to the proxy form.

   The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting.

   In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

4. A form of proxy is enclosed. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by contacting the Company's registrar, Capita Asset Services, on 0371 664 0300 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. The Company's registrar is open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales) or the proxy form may be photocopied. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.

   To be valid, a proxy form must be completed and signed and sent by post or delivered (during normal business hours only) by hand so as to be received at the offices of the Company's registrar, Capita Asset Services PXS 1, 34 Beckenham Road, Beckenham BR3 4ZF, no later than 11.00 a.m. on 21 November 2016 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

   In the case of an individual, a form of proxy must be signed by that individual or his attorney. In the case of a corporation, a form of proxy must be executed under its common seal or signed on its behalf by its duly authorised officer, attorney or other person authorised to sign.

5. The notes to the proxy form explain how to direct your proxy to vote on each resolution or to withhold their vote.

6. CREST members who wish to appoint a proxy or proxies for the meeting (or any adjournment of it) through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Capita Asset Services (ID RA10) no later than 11.00 a.m. on 21 November 2016 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Asset Services is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

7. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares.

Documents available for inspection

8. The following documents will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the time of the meeting. They will also be available for inspection at the place of the meeting from at least 15 minutes before the meeting until it ends.

    8.1 Copies of the service contracts of the executive directors.

    8.2 Copies of the letters of appointment of the non-executive directors.

Biographical details of directors

9. Biographical details of all those directors who are offering themselves for reappointment at the meeting are set out on pages 12 and 13 of the enclosed annual report and accounts.

Voting rights

10. As at 6.00 p.m. on 11 October 2016, the Company's issued share capital comprised 52,210,759 ordinary shares of £0.05 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 11 October 2016 is 52,210,759. The Company has no treasury shares.

Annual General Meeting

FORM OF PROXY

DIURNAL GROUP PLC

(Incorporated in England and Wales with registered number 9846650)

I/We .... (FULL NAME(S) IN BLOCK CAPITALS)

Of .... (ADDRESS IN BLOCK CAPITALS)

....

being (a) member(s) of the above named Company, appoint the Chairman of the meeting OR the following person*:

Name of proxy	Number of shares in relation to which the proxy is authorised to act

(Please refer to Explanatory Note 2)*

as my/our proxy to exercise all or any of my/our rights to attend, speak and vote in respect of my/our voting entitlement on my/our behalf at the annual general meeting of the Company to be held at the offices of FTI Consulting LLP, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD on 23 November 2016 at 11.00 a.m. and at any adjournment of the meeting.

☐ Please tick here if this proxy appointment is one of multiple appointments being made.
(For the appointment of more than one proxy, please refer to Explanatory Note 3.)

I/We would like my/our proxy to vote on the resolutions to be proposed at the meeting as indicated on this form. Unless otherwise instructed, the proxy can vote as he or she chooses or can decide not to vote at all in relation to any business of the meeting.

Ordinary Resolutions	**For**	**Against**	**Vote Withheld**
1 To receive the Company's annual accounts, strategic report directors' and auditors' report for the year ended 30 June 2016			
2 To reappoint Peter Allen as a director of the Company			
3 To reappoint Ian Ardill as a director of the Company			
4 To reappoint John Goddard as a director of the Company			
5 To reappoint Alan Raymond as a director of the Company			
6 To reappoint Richard Ross as a director of the Company			
7 To reappoint Martin Whitaker as a director of the Company			
8 To reappoint Sam Williams as a director of the Company			
9 To receive and approve the directors' remuneration report contained within the annual report and accounts for the year ended 30 June 2016			
10 To reappoint KPMG LLP as auditors of the Company			
11 To authorise the directors to determine the remuneration of the auditors			
12 To authorise the directors generally and unconditionally to allot shares pursuant to section 551 of the Companies Act 2006			
Special Resolutions			
13 To disapply section 561 of the Companies Act 2006 generally in relation to allotments of equity securities			
14 To authorise the directors generally and unconditionally to make market purchases within the meaning of section 693(4) of the Companies Act 2006			

Signature ______________________ Date __________ 2016

(Please refer to Explanatory Notes 7 and 8)

Notes

1. You are entitled to appoint one or more proxies of your own choice to exercise all or any of your rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company. If you appoint more than one proxy, each proxy must be appointed to exercise the rights attached to a different share or shares held by you. You can only appoint a proxy in accordance with the procedures set out in these notes and in the notes to the notice of meeting.
2. If you wish to appoint the Chairman of the meeting as your proxy, please leave the space provided blank. If you wish to appoint a proxy other than the Chairman of the meeting, please insert their full name in the space provided. If you sign and return the form with no name in the space provided, the Chairman of the meeting will be deemed to be your proxy in respect of your full voting entitlement. If you are appointing a proxy other than the Chairman of the meeting and wish the proxy to be appointed in relation to less than your full voting entitlement, please enter in the box next to the name of the proxy the number of shares in relation to which they are authorised to act as your proxy. If you sign and return the form and leave this box blank, your proxy will be deemed to be authorised to act in respect of your full voting entitlement (or if this form of proxy has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
3. To appoint more than one proxy, you will need to complete a separate form in relation to each appointment. Additional forms may be obtained by contacting the Company's registrar, Capita Assets Services, on 0371 664 0300 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. The Company's registrars are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales) or you may photocopy this form. You will need to state clearly on each form the number of shares in relation to which the proxy is appointed. Please therefore indicate in the box next to the name of the proxy the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of the number of shares held by you may result in the proxy appointment being invalid.
4. Completion and return of this form of proxy will not preclude you from attending and voting in person at the meeting if you wish. If you do attend the meeting in person, your proxy appointments will automatically be terminated. If you wish a proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman of the meeting and give them the relevant instructions directly.
5. If you want your proxy to vote in a certain way on the resolutions specified, please indicate with an "X" in the appropriate box above how you wish your vote to be cast. If you fail to select any of the given options, your proxy can vote as he or she chooses or can decide not to vote at all. Your proxy can also do this on any other business which may come before the meeting, including amendments to resolutions and any procedural business.
6. The "vote withheld" option on this form of proxy is provided to enable you to instruct your proxy not to vote on any particular resolution. However, a "vote withheld" is not a vote in law and will not be counted in the calculation of the votes "for" and "against" a resolution.
7. In the case of an individual, this form of proxy must be signed by that individual or his attorney. In the case of a corporation, this form of proxy must be executed under its common seal or signed on its behalf by its duly authorised officer, attorney or other person authorised to sign.
8. In the case of joint holders, only one need sign, but the names of all the joint holders must be stated. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names appear in the register of members in respect of the joint holding.
9. To be valid, this form of proxy (duly signed and together with any power of attorney or other authority under which it is signed) must be sent by post or delivered (during normal business hours only) by hand so as to be received at the offices of the Company's registrar, Capita Asset Services PXS 1, 34 Beckenham Road, Beckenham BR3 4ZF, no later than 11.00 a.m. on 21 November 2016 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).
10. CREST members who wish to appoint a proxy or proxies for the meeting (or any adjournment of it) through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must be transmitted so as to be received by Capita Asset Services (ID RA10) no later than 11.00 a.m. on 21 November 2016 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). Please refer to the notes to the notice of meeting for further information on proxy appointments through CREST.
11. You may not use any electronic address provided in this form of proxy to communicate with the Company for any purposes other than those expressly stated.

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