Diurnal Group plc
Annual Report and Accounts 2017

Diurnal

Moving forward

A UK-based, globally focused specialty pharma company developing high quality products for the life-long treatment of chronic endocrine conditions.

We are committed to addressing major unmet clinical and patient needs in hormone replacement, initially by developing and marketing products for the rare orphan diseases congenital adrenal hyperplasia (CAH) and adrenal insufficiency (AI).

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Find out more at
diurnal.co.uk

Highlights

Operational

+ Primary endpoint successfully met in European Phase III Infacort® registration trial in paediatric AI
+ Infacort® paediatric use marketing authorisation (PUMA) submitted to the European Medicines Agency (EMA)
+ First patient dosed in food matrix compatibility study intended to form part of US Phase III registration package for Infacort®; expanded global patent estate with first US patent granted for Infacort®
+ Completed first phase of establishing the Company's European commercial infrastructure and implemented the commercial supply chain for Infacort®
+ Significant progress in the European Phase III trial of Chronocort® in CAH, with over 75% of patients enrolled

Financial

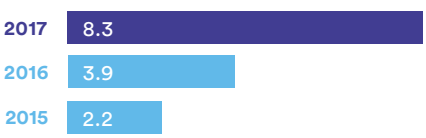
+ Operating loss of £12.1m (2016: £7.0m) reflecting increased investment to support the Group's anticipated development
+ Cash and cash equivalents and held to maturity financial assets at 30 June 2017 of £19.9m (2016: £30.1m)
+ Net cash used in operating activities was £10.5m (2016: £5.1m), in line with the Board's expectations

Post-period highlights

+ In line with regulatory evaluation, submitted responses to "Day 120 questions" received from the EMA following review of the Infacort® PUMA package
+ Submitted a proposed Phase III pivotal US registration study design and supporting data package for Chronocort® to the US Food and Drug Administration (FDA)
+ Further expanded global patent estate with first US patent granted for Chronocort®

Research and development expenditure (£m)

£8.3m



Cash and cash equivalents and held to maturity financial assets (£m)

£19.9m

Chairman's statement

Meeting milestones, building our future

> "Throughout this period of development, Diurnal has maintained its entrepreneurial and patient-centric approach."

It is with great pleasure that I report on the significant progress Diurnal has made this financial year towards becoming a world-leading, endocrinology-focused specialty pharma company. Most notable is the delivery of key milestones towards first commercial revenues. Through this period of development, Diurnal has maintained its entrepreneurial and patient-centric approach, which has enabled the progression of a valuable portfolio of novel prospects and provides a solid platform for our future development.

Strategy for success

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 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. Diurnal is able to gain valuable insights into the burden of living with these diseases through our interaction with physicians and patient groups. These discussions have helped, and continue to help, shape the Group's development plans, such that we can deliver products that not only address important unmet needs and improve patients' lives but also have a positive impact on healthcare budgets.

Investing for development and value creation

During the year, Diurnal continued to make significant clinical development progress with its late-stage pipeline products, as well as establishing commercial operations in anticipation of future product launches. Infacort® and Chronocort® are in late-stage clinical development targeting indications of cortisol deficiency: Infacort® has completed a Phase III clinical trial and has been submitted for marketing authorisation in Europe, and Chronocort® is currently undergoing a Phase III clinical trial for Europe. The Group has put in place strong commercial infrastructure in Europe to support the planned launch of Infacort®, for which the Group anticipates receiving market authorisation in Europe towards the end of 2017, at which stage development costs will begin to be capitalised in accordance with International Accountancy Standards (IAS). The Group plans to leverage its investment in the commercial team through the timely introduction of Chronocort® following completion of the ongoing European Phase III clinical trial and regulatory review, expected around the end of 2019. The Group also remains mindful of external growth opportunities and continues to assess endocrinology assets that fit within its disease focus. The US remains a key market for Diurnal and the Group intends to progress the Phase III development of both Infacort® and Chronocort® in this region during the new financial year, whilst assessing the optimal commercialisation strategy, in parallel.

As planned, the funds raised at the IPO have allowed the Group to continue to build its team, and we have been able to attract highly skilled individuals across the organisation. The agreement with Ashfield Healthcare, announced during the year, has facilitated a rapid and efficient build-out of our European commercial organisation without the need to undertake costly upfront investment in infrastructure in each of our key territories. I am pleased to see that the Ashfield team has integrated seamlessly with Diurnal staff and are rapidly implementing our launch plans.

Diurnal also continues to invest in its earlier-stage pipeline, with good progress being made with the Group's oral native testosterone product, which entered human clinical trials during the year, as well as our programmes in Cushing's Disease (cortisol excess) and hypothyroidism.

Board changes and governance

Diurnal strengthened its Board during the year with the appointment of Richard Bungay as Chief Financial Officer. Richard's extensive experience in corporate roles within the biotechnology and pharmaceutical sector, with a particular focus on financing, investor relations and business development, will be invaluable as the Group executes its ambitious development plans.

As the Group continues its rapid development, the Board and senior management are focused on maintaining a strong system of internal controls and appropriate risk management systems, to ensure that the business is well controlled. The Group has made significant investments during the year to ensure that it maintains the highest standards of quality in its operations. The Board continues to monitor the potential effects of Brexit on the Group's business and, in particular, any impact on the regulatory framework for pharmaceutical product development, approval and commercialisation as well as any trading impacts as we prepare to commercialise Infacort® across Europe.

People and culture

I would like to thank our employees for their continued support and hard work in driving the Group's progress towards commercialising its first products. Few companies in the UK have successfully taken their own product into a regulatory review and on to commercialisation: it is a testament to the Diurnal team that our key milestones have been met during a period of intense activity and change. I would also like to thank my fellow Board members for the progress made this year in overseeing 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
5 September 2017

Building a flexible and responsive organisation

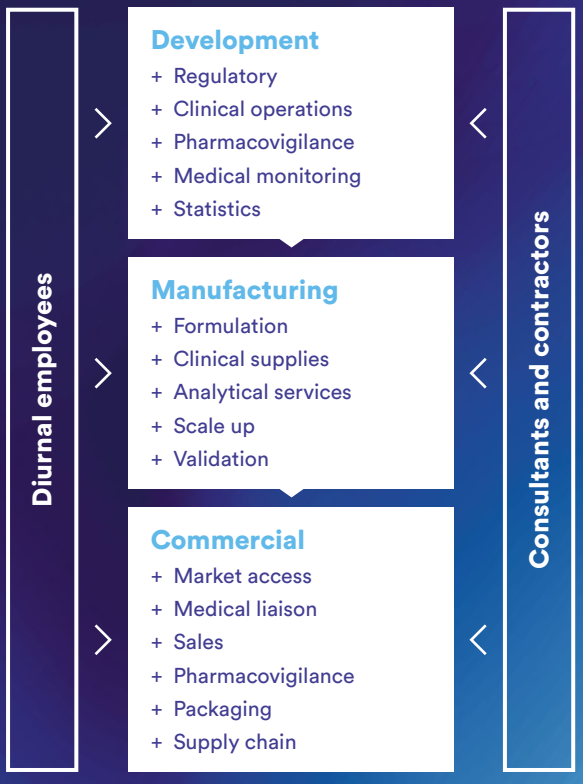
Diurnal's progress towards becoming a world-leading endocrinology-focused specialty pharma company has been characterised by a strong focus on capital efficiency, whilst making sure that high quality resources are available on a timely basis. Diurnal's organisation reflects the need for different skills at different stages of the product development cycle and provides the ability to respond flexibly to business needs.

Key elements of Diurnal's structure are:

+ A core internal team covering development, regulatory, manufacturing, supply chain and commercialisation, in addition to administration.
+ Many of Diurnal's team work virtually, giving the Group access to the best individuals worldwide regardless of location.
+ Trusted consultants and contractors bringing expertise to Diurnal's development, manufacturing and commercialisation activities.
+ A network of contract organisations, providing robust support for critical business activities worldwide. Diurnal has had successful long-term relationships with many of its partners.

One example of such a relationship is with Glatt GmbH, who manufacture Infacort® and Chronocort® products. Diurnal started working with Glatt in 2010, initially for the development of formulations then moving onto clinical trial product manufacture, scale up and, for Infacort®, progression to manufacture of commercial product at Glatt's facility in Binzen, Germany.

20 Read more about Chronocort® on page 20



Diurnal at a glance

The specialty pharmaceutical company targeting patient needs in chronic endocrine diseases

Our products

Late-stage "Adrenal Franchise"

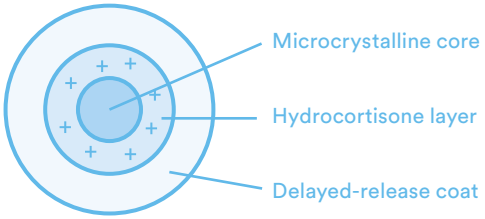
Infacort®

+ 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.
+ Regulatory dossier submitted to the EMA in 2016, with recommendation for market authorisation anticipated in late 2017.
+ Commenced a US registration programme in 2017.

6 See a full case study on Infacort® on page 6

Chronocort®

+ Modified-release hydrocortisone preparation, initially targeting Congenital Adrenal Hyperplasia in adult patients.
+ Commenced a European Phase III clinical trial in February 2016.
+ Commencing a US Phase III clinical trial around the end of 2017.



20 See a full case study on Chronocort® on page 20

Early stage pipeline

Native Oral Testosterone (DITEST™)

+ Testosterone replacement treatment for patients suffering from hypogonadism.
+ Commenced a proof of concept study in male hypogonadal patients in 2016.

Rheumacort®

+ Modified-release hydrocortisone preparation for patients suffering with inflammatory diseases.
+ Phase II proof-of-concept study planned to commence in 2018.

T3 modified-release

+ A modified-release preparation of T3 (levothyroxine) hormone for patients suffering from hypothyroidism.
+ Formulation feasibility work planned to commence during 2018.

siRNA

+ Short interfering RNA oligonucleotide therapy for patients suffering from adrenocorticotropin-dependent Cushing's syndrome.
+ Formulation underway with a view to commencing *in vivo* proof-of-principle experiments in 2018.

What sets us apart

Targeted technologies addressing real unmet patient needs

A broad pipeline with multiple sequential drug launches planned

A strong strategic approach with drugs being targeted for commercialisation

Strong partnerships and backing from "blue chip" investors

Drug development pipeline

Name	Indication	Pre-Clinical	Phase I	Phase II	Phase III	Market	Est. Regulatory opinion
Infacort®	Paediatric Adrenal Insufficiency			Phase II in US			2017 (2019 in US)
Chronocort®	Congenital Adrenal Hyperplasia			Phase II in US			2019 (2021 in US)
	Adrenal Insufficiency						TBC
Native Oral Testosterone	Hypogonadism						TBC
Rheumacort®	Inflammatory diseases						TBC
T3 modified-release	Hypothyroidism						TBC
siRNA	Cushing's						TBC

Case study

Infacort®: from concept to commercialisation

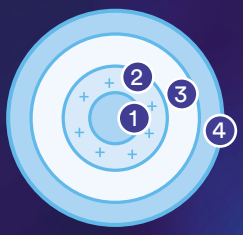
Identification of unmet need:

No approved hydrocortisone product for paediatric CAH and AI patients

- **Unpalatable bitter taste**
- **Formulations that are challenging to administer**
- **Imprecise, inaccurate and highly variable dosing that risks over- or undertreatment**[1]

Design of optimal product:

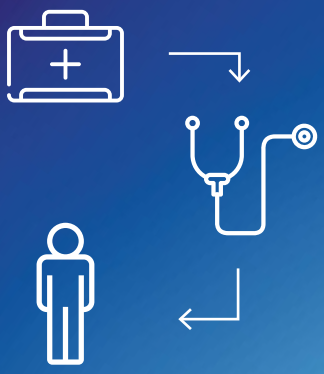
Flexible dosages for optimal treatment; paediatric friendly taste-masked dose form



1. Microcrystalline bead
2. Hydrocortisone layer
3. Seal coat
4. Taste making coat

Execution of clinical studies:

Infacort 003: statistically significant ($p<0.0001$) increase in cortisol values to within biological range[2]



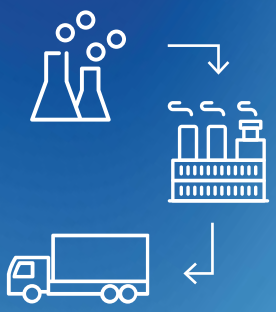
Regulatory (PUMA) submission

Commercialisation

Commercial organisation in place in key European markets and distribution agreement executed for Israel

Global supply chain

Global manufacturing and packaging agreements executed for commercial supplies



Patient access programme

Patient Access programme initiated to facilitate access for patients who have no other treatment options

1. Kauzor et al. (2014)
2. Clinical Endocrinology (2017)

"We envisage a very busy 12 months ahead, with a number of key events that will position the Group well to achieve its vision."

Q&A

What is your vision for Diurnal?

In the long term, we aspire to be the company that physicians first think of when treating patients with a broad range of endocrine disorders. In the near term, we aim to become the pre-eminent company in the treatment of diseases of cortisol deficiency.

What are your lead pipeline programmes and what unmet medical needs are they addressing?

Our two lead programmes, Chronocort® and Infacort®, both address diseases of deficiency in cortisol, a key hormone involved in maintaining health for life.

Chronocort® is initially being developed for congenital adrenal hyperplasia (CAH), an inherited condition where patients are unable to produce cortisol, leading to a poor quality of life and lower life expectancy. Current treatments are unable to provide the correct amount of cortisol during the night, leading to a build-up of potent sex hormones, called androgens, which cause damage to the body. Chronocort® is deigned to mimic the body's natural – or diurnal – rhythm and hence control the level of these androgens.

Infacort® is being developed to treat children who lack cortisol – a condition known as adrenal insufficiency (AI). Despite the active ingredient of Infacort® having been available for around 60 years, there is surprisingly no approved paediatric product. Infacort® is designed to provide an accurate and appropriate dose of this life-saving medicine in a child-friendly formulation.

How big are the markets that these programmes are addressing?

We estimate that there are over 60,000 patients suffering from CAH across the US and Europe, which we believe translates to a total potential market of over $400m. The paediatric AI market, which we will address with Infacort®, is around 4,000 patients in Europe and a similar number in the US, giving a potential market opportunity of around $60m. Whilst this is a relatively small market, Infacort® is important as it will mark Diurnal's first commercial launch.

Beyond the initial launch of Chronocort® in CAH we have plans to develop the product for the much larger adult AI market, where there are potentially over 400,000 patients in the US and Europe.

When do expect your first drug to be approved and in which territory?

Our most advanced product is Infacort®, where we anticipate recommendation for approval in Europe in late 2017. This will represent a major milestone for the Group – few UK companies have successfully taken a product from concept to full commercialisation.

How will you commercialise the drugs in your portfolio?

A key benefit of working in diseases of cortisol deficiency is that there are a relatively small number of prescribing centres, usually based around teaching hospitals. This means that the market can be addressed with a modest sales force. During the last year, we have been working closely with Ashfield Healthcare to build the foundations of our commercial organisation in Europe, and now have individuals based in the five largest European markets: UK, Germany, France, Spain and Italy. This team will market Infacort® and, in due course, Chronocort® to endocrinology specialists.

In the US, where market access for a new product launch requires a deep expertise, we will most likely seek to partner with a company focused on hospital products, ideally with existing products in the endocrine space.

What key newsflow can we expect from the Group in the 2017/18 financial year?

We envisage a very busy 12 months ahead, with a number of key events that will position the Group well to achieve its vision. Firstly, we anticipate approval of Infacort® in Europe, leading to the first commercial sales during 2018. For our late stage pipeline, we anticipate completing recruitment in our Chronocort® European Phase 3 study and announcing headline results. Importantly, we expect to start Phase 3 registration studies in the US for both Infacort® and Chronocort®. We also expect to be able to announce progress in expanding Chronocort® into new indications, which will drive future growth for this product. Notably, we anticipate further strengthening of our patents, which will provide valuable in-market protection for our lead- products. Finally, we continue to develop our early-stage pipeline, which is addressing further unmet needs in the endocrine space, and hope to announce further progress during the coming 12 months.

The diseases we are targeting

Goals of our product development:

+ Improved drug treatments
+ Potential for reduced side-effects
+ Better patient adherence
+ Improved bioavailability
+ Improved patient outcomes
+ Cost effective treatment

Glands affected


Adrenal glands


Gonad glands


Pituitary gland


Thyroid gland

Congenital Adrenal Hyperplasia (CAH)

+ 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 across Europe (51,000) and the US (20,000), with approximately 405,000 in the rest of the world. The European 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 are estimated to adequately treat approximately one third of CAH patients.

$0.4bn

The European and US markets are estimated to be worth a combined $0.4bn annually.

Adrenal Insufficiency (AI)

+ 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 West 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 European and US markets are estimated to be worth a combined $2.9bn annually.
+ Current therapy for AI includes immediate-release and modified-release formulations of hydrocortisone which do not provide a release profile mimicking the natural circadian rhythm of cortisol.

4.1m

Estimated sufferers of AI worldwide.

Hypogonadism

+ A condition that 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 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 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.
+ Hypogonadism in young men occurs in approximately 1% 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 Europe and the US is primarily driven by topical formulations (gels and patches) and long-acting injections which is estimated to be of a value of $4.0bn.
+ There is some controversy over the risks and benefits in replacing testosterone in older men (including the potential for cardiovascular disease). Diurnal is focused on developing testosterone replacement for men with clearly-defined hypogonadism according to current clinical guidelines.

$4.0bn

Estimated value of hypogonadism market.

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 $600m per annum worldwide.

5%

of people over 60 years of age are hypothyroid.

Cushing's Syndrome/ Disease

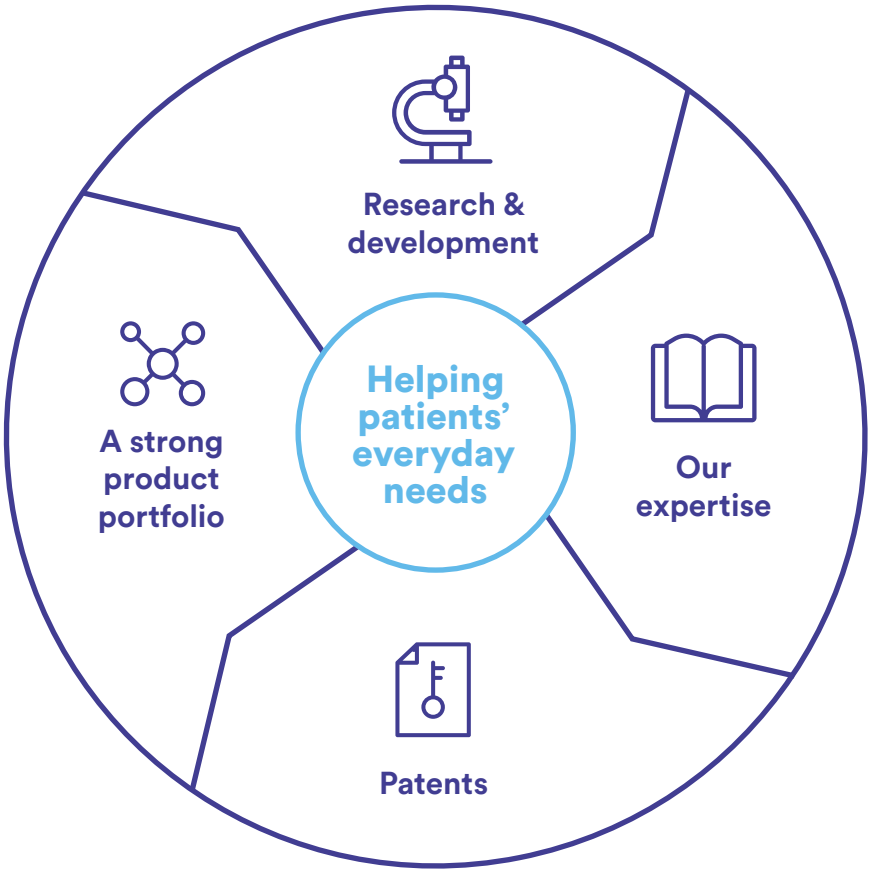
+ Results from excess cortisol production either as a result of a tumour in the adrenal gland (Cushing's syndrome) or from excess stimulation by benign tumours of the pituitary gland (Cushing's disease).
+ Initial treatment is surgery, but up to 35% of patients with Cushing's disease require long-term 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.
+ It is most common in adults, between the ages of 20 and 50 years old and it affects women more frequently than men.
+ The market opportunity is estimated to be in the region of $455m per annum worldwide.

35%

up to 35% of Cushing's patients require long-term medical therapy.

Our vision

To become a world leading endocrinology-focused specialty pharma company.



Helping patients' everyday needs

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 patients' health.

+ Diurnal's journey always starts with a patient need that is unmet by current therapies.
+ Diurnal is able to develop a deep understanding of "pain points" through its network of experts.
+ The Group also interacts closely with patient groups to validate the needs of a particular disease.

Our dynamic business model

Research & development

+ Deep understanding of drug delivery technologies.
+ Platform-agnostic: best technology selected for each product.

8 Read more about our research on page 8

Our expertise

+ Strong network of disease experts.
+ Internal expertise supplemented by external collaborators.

3 Read more about our expertise on page 3

Patents

+ Novel approaches deliver strong patent protection.
+ Key patents granted in US and other major territories.

35 Read more about our patents on page 35

A strong product portfolio

+ Late-stage portfolio underpinned by novel early-stage approaches.
+ Sequence of future launches planned.

4 Read more about our portfolio on page 4

Our strategy moving forward

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

+ Complete Phase III trials for Infacort® and Chronocort® in both Europe and the US.
+ Initiate commercialisation of Infacort® in Europe.
+ Expand the Group's commercial capability with Chronocort® in Europe.
+ Enter into strategic collaboration for Infacort® and Chronocort® in the US.
+ Maximise revenues in rest of world through local distribution agreements.

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

+ 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, hypothyroidism and Cushing's disease.
+ Evaluate strategic opportunities for potential acquisitions of other products and/or market participants where these would accelerate or add value to the existing plan.

Addressing unmet patient needs in large markets

"The Group is well positioned for its anticipated transformation into a fully integrated, world-leading, endocrinology-focused speciality pharma company."

The financial year to 30 June 2017 has seen Diurnal continue to build on the momentum following its initial public offering (IPO) in December 2015 through the delivery of key milestones contributing towards its vision of becoming a world-leading specialty pharma company focused on endocrinology. In line with the Group's strategy set out at the time of the IPO, and supported by the financial strength provided by the IPO, Diurnal has successfully completed the registration study and subsequent regulatory submission of Infacort® in Europe, with recommendation for approval anticipated towards the end of 2017, and commenced the build out of the Group's commercial capability in Europe, with first revenues expected in 2018. The progress the Group has made over the last year has set the business up for a commercial step change to drive the next stage of development. Diurnal believes that it has an opportunity to become one of the few UK biotechnology companies to successfully take a product from concept to commercialisation.

Diurnal believes that its strategy of developing novel products using well-characterised active ingredients to meet significant unmet medical needs offers a lower risk approach than the development of new chemical or biological entities, whilst enabling significant in-market protection through both patent filings and regulatory protection. For example, the active ingredient of both Infacort® and Chronocort®, hydrocortisone, is extremely well-tolerated, with an extensive safety database through over 50 years of clinical use. Diurnal's product candidates are protected by a wholly-owned patent portfolio, benefiting from granted or pending patents in key jurisdictions, along with strong protection through Orphan Drug designations.

Significant progress towards commercialisation of Infacort® in Europe

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 expected 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 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 into 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.

At the start of the financial year, Diurnal announced positive headline data from the pivotal Phase III clinical trial for Infacort® in Europe for paediatric AI. 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. AI (and CAH) are identified as rare diseases in Europe, where there are estimated to be around 4,000 sufferers younger than the age of six. Left untreated, the disease is associated with significant morbidity. Many patients from the Phase III clinical trial are continuing treatment in the Group's European open-label safety extension trial of long-term safety and biochemical disease control, which will provide further valuable safety data to support the registration and commercialisation of Infacort®.

Following the positive Phase III results, Diurnal submitted a paediatric use marketing authorisation (PUMA) application for Infacort® to the European Medicines Agency (EMA) in December 2016. Shortly after the end of the financial year, and in line with regulatory evaluation, Diurnal provided responses to the questions ("Day 120 questions") received from the EMA following its review of the PUMA package, and the Group continues to anticipate recommendation for marketing authorisation approval for Infacort® in Europe towards the end of 2017.

Reflecting a small, focused prescribing base, Diurnal intends to commercialise Infacort® itself in the major European markets, following regulatory approval, in order to retain the full value of the product and has made significant progress during the year in establishing its European commercial operations. Diurnal's small in-house commercial team has been supplemented through a service agreement with the respected global contract sales organisation Ashfield Healthcare ("Ashfield") to support the Group in building its sales and medical infrastructure in major European territories. Ashfield, under the direction of the Group's commercial leadership, has completed the planned first phase of establishing a Europe-wide team to prepare for the anticipated launch of Infacort® in 2018, with ten individuals currently in place in key European territories and fully integrated with the Diurnal in-house team. Outside of its core territories, Diurnal will seek local distribution arrangements where there is a significant market for the Group's products and executed the first such agreement early in 2017. During the year, Diurnal has also put in place the commercial supply chain for the manufacturing and packaging of Infacort® with leading global expert service providers.

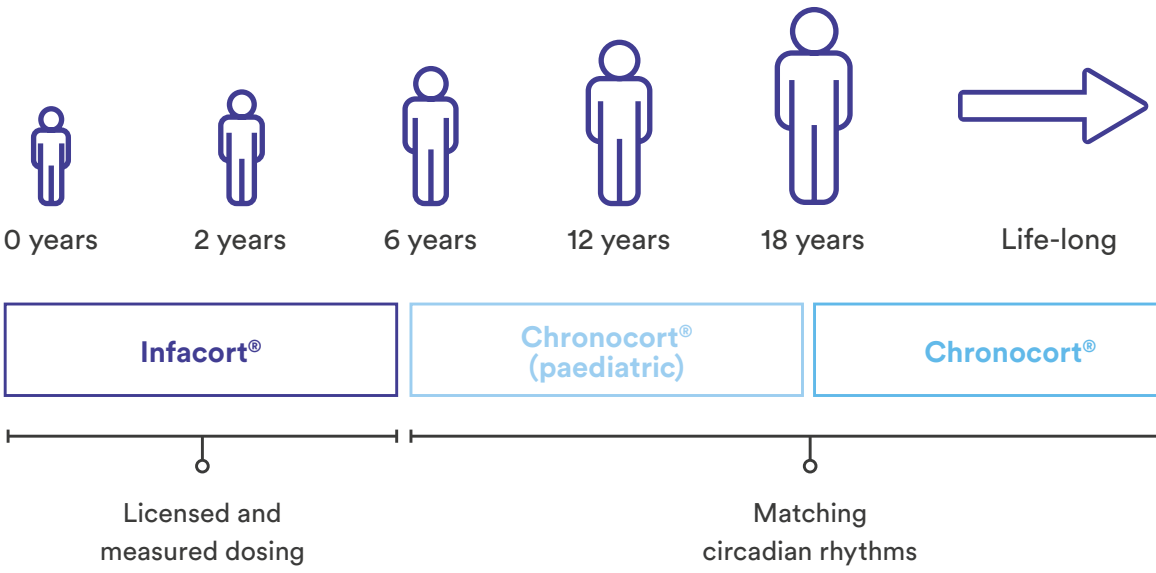
Continued progress in late-stage product pipeline

Diurnal's second late-stage product candidate, 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. Chronocort® is designed to improve disease control for adults with CAH: clinical data has 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 and 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.

Chronocort® is currently being assessed in a Phase III trial in Europe, which is designed to study up to 110 patients in an open-label six-month treatment 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. 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®. 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 continues to progress well with over 75% of patients recruited at the end of the financial year and is scheduled to complete in the first half of 2018, implying a potential recommendation for approval in Europe could be forthcoming around the end of 2019.

An open-label safety extension trial of long-term safety, efficacy and tolerability of Chronocort® in patients with CAH, previously enrolled in the Phase III registration trial, commenced in August 2016 and is intended to provide further valuable safety data to support the registration and commercialisation of Chronocort®.

Building a life-long "Adrenal Franchise"



Chief Executive's review continued

Continued progress in late-stage product pipeline continued

The Group continues to progress discussions with the US Food and Drug Administration (FDA) regarding the requirements for the registration programme for Infacort® and Chronocort® in the US. Clinical study design requirements for CAH differ between the US and Europe, meaning that a separate clinical programme will be required for registration of these two products in the US. In June 2017, the Group dosed the first patient in a food matrix compatibility study for Infacort® in healthy volunteers, which is intended to support the planned US registration package for Infacort® for the treatment of paediatric AI. Diurnal is continuing discussion with the FDA to finalise additional requirements for the planned US registration package for Infacort®. After the end of the financial year Diurnal submitted a proposed Phase III pivotal US registration study design and supporting data package for Chronocort® to the FDA and, subject to their agreement, expects to commence this study around the end of 2017.

Building a novel early-stage endocrinology pipeline

During the year, the Group has continued to build on its strong platform in underserved endocrinology diseases such as those associated with the gonads, pituitary and thyroid.

In late 2016, the Group announced dosing of the first patient with its native oral testosterone product, DITEST™, for the treatment of male hypogonadism in a Phase I clinical study designed to evaluate pharmacokinetics, safety and tolerability in male patients with hypogonadism. Following a review of data from the first cohort of this study, in which the pharmacokinetics of DITEST™ were compared to testosterone undecanoate in patients following a meal, DITEST™ will progress to the second cohort of the study, which will compare its pharmacokinetics in a fed state and fasted state. The results from this study are expected in the first half of 2018.

During the year, the Group initiated studies to assess the potency of different formulations of its oligonucleotide (siRNA) therapy, targeted to the pituitary gland, for the potential treatment of Cushing's Disease (cortisol excess). If successful, these studies would facilitate to preclinical efficacy and safety studies, ahead of potentially entering a product candidate into human clinical development.

Following a review of the current market for treatments for hypothyroidism, the Group has concluded that the needs of patients for replacement of T4 (thyroxine) are being met adequately with recently introduced products to the market. Accordingly, the Group has ceased work on its Tri4Combi™ formulation and is currently finalising plans for the development of a modified-release T3 (triiodothyronine) product, where there remains a significant unmet medical need.

Maximising the commercial value of the product pipeline

As highlighted above, the Group has made excellent progress during the year in assembling a European sales and marketing force that is able to commercialise Infacort® and subsequently Chronocort® and other pipeline products. The environment for the successful introduction of novel healthcare products in the US remains challenging, in particular with regards to ensuring that market access is optimised for a product launch. Accordingly, Diurnal is likely to capitalise on the strong interest in its programmes and seek a US partner for commercialisation of its late-stage pipeline products at an appropriate time. Diurnal will also seek local distribution arrangements for territories outside the US and Europe where there is a significant market for the Group's products. In March 2017, Diurnal announced a distribution agreement with Medison Pharma Limited ("Medison") for Israel. Medison is a leader in the marketing of specialist-focused products in Israel and will help Diurnal optimise the value of Infacort® and Chronocort® in this territory, subject to approval in Europe and subsequently in Israel. Diurnal continues to assess opportunities for similar agreements, addressing selected high-value markets.

In March 2017, the Group announced a partnership with Clinigen Group plc's IDIS Managed Access division to launch a Patient Access programme in Europe for Infacort® and Chronocort® to ensure that patients with cortisol deficiency but no other treatment options can access these medicines as efficiently as possible ahead of anticipated European approval and commercial launch.

> "The Group believes that its European commercial organisation will be a valuable asset."

Extensive in-market protection

Diurnal continues to protect its product candidates through an extensive patent portfolio, benefiting from a number of granted or pending patents in key jurisdictions. During the year, the Group received notification of the grant of three US Infacort® patents, of which two key patents have been granted: a composition of matter patients for the product formulation and a method of treatment patent for all forms of adrenal insufficiency. These granted patents provide in-market protection for Infacort® to 2034. The Group expects to continue to expand patent coverage for its pipeline products in the future.

In addition to the strong and growing patent protection for its pipeline products, the FDA has granted Chronocort® Orphan Drug designation in the treatment of both CAH and AI and has granted Infacort® Orphan Drug designation in the treatment of paediatric AI. Diurnal has applied for a PUMA for Infacort® in Europe, whilst Chronocort® already benefits from the Orphan Drug designations for CAH and AI in Europe. These Orphan Drug designations mean Infacort® and Chronocort® have the potential to be granted market and data exclusivity for ten years in Europe and seven years in the US post market authorisation.

Outlook

The Group is well positioned for its anticipated transformation into a fully integrated, world-leading, endocrinology-focused specialty pharma company with the recommendation for approval of its first product, Infacort®, which Diurnal continues to expect in H2 2017. Together with its other late-stage product, Chronocort®, Diurnal has the opportunity to build a life-long adrenal franchise, providing critical medicine in underserved diseases of cortisol deficiency. With the European Chronocort® pivotal trial on track to read out in the first half of 2018, and with over 75% of patients already recruited by the end of the financial year, the Group believes that a recommendation for approval in Europe could be forthcoming around the end of 2019. Reflecting a combined market size estimated at over 400,000 patients in Europe and the US alone for Infacort® and Chronocort®, the Board believes that the potential for Diurnal looks very positive.

Martin Whitaker
Chief Executive Officer
5 September 2017

Building to support future development

> "The continued investment in the business will support its anticipated growth and development in the coming years."

Operating income and expenses

Operating expenses are in a growth phase, reflecting the increased clinical and development activities together with investment in headcount and business infrastructure to support the transition of the business to a fully-integrated speciality pharma organisation with product origination, development and commercialisation capabilities. This continued investment in the business will support its anticipated growth and development in the coming years.

Research and development expenditure for the year was £8.3m (2016: £3.9m). Expenditure on product development and clinical costs increased in the period as the Group submitted the Infacort® PUMA application to the EMA and continued to progress Chronocort® in a Phase III registration trial in Europe. The Group also recruited the first patients from the Chronocort® Phase III trial into a long-term follow-on study and commenced a Phase I study with its native oral testosterone product in hypogonadal patients. Staff-related expenditure also increased as a result of the appointment of new staff and the full impact of the implementation of a new remuneration policy, comprising annual bonus and long-term incentive schemes in H2 2015 following the IPO. The Group has not capitalised development costs for Infacort® during the financial year following the successful Phase III trial in Europe since a key element of the in-market protection for Infacort® is the exclusivity afforded by the PUMA, which only takes effect once the product is approved by the EU. The Group intends capitalising Infacort® development costs under IAS 38 following the anticipated approval of the PUMA.

Administrative expenses for the year were £3.7m (2016: £3.1m). A substantial increase in pre-commercialisation expenses, as the Group prepares for the anticipated launch of Infacort® in 2018, along with the appointment of new staff and the full impact of the implementation of a new remuneration policy in the prior period was offset by costs of £0.6m in the prior period relating to fees paid in connection with the AIM admission.

Operating loss

Operating loss for the year increased to £12.1m (2016: £7.0m), reflecting the increased operating expenses outlined above.

Financial income and expense

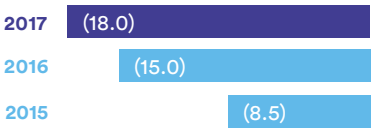
Financial income in the period was £182k (2016: £63k), due to the higher average cash balances during the year: the funds from the IPO fundraising and the convertible loan were received in late December 2015 and consequently only had an impact for half of the prior year. Financial expense for the period was £272k (2016: £133k), 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.

Loss on ordinary activities before tax

Loss before tax for the period was £12.2m (2016: £7.1m).

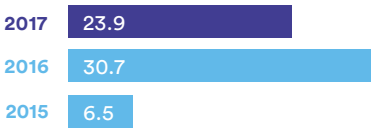
Loss per share (p)

(18.0p)



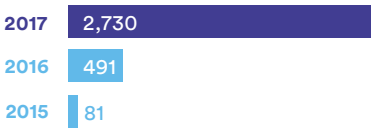
Total assets (£m)

£23.9m



Tax credit (£k)

£2,730k



Tax

The current year includes Research & Development tax credits relating to the year ended 30 June 2016 of £911k, received in August 2017, as well as the estimated claim in respect of the year ended 30 June 2017 of £1,819k, which has not yet been submitted to HMRC. The prior year includes a credit in respect of the approval by HMRC of the R&D tax credit claim for the period ended 30 June 2015. 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.

Earnings per share

Loss per share was 18.0 pence (2016: 15.0 pence). Loss per share has increased due to the higher operating costs explained above.

Cash flow

Net cash used in operating activities was £10.5m (2016: £5.1m), driven by the planned increase in investment in R&D and business infrastructure during the year. Net cash from investing activities was £3.2m (2016: net cash used in investing activities £14.0m) reflecting a net movement from longer-dated held to maturity financial assets to short-dated cash and cash equivalents. Net cash generated by financing during the prior period of £29.1m reflects the net proceeds of the issue of shares in the IPO and funds received from issue of the convertible loan in December 2015.

Balance sheet

Total assets decreased to £23.9m (2016: £30.7m), largely reflecting the utilisation of cash in operating activities highlighted above. Held to maturity financial assets were £11.0m (2016: £14.0m) and cash and cash equivalents were £8.9m (2016: £16.1m). Total liabilities increased to £6.9m (2016: £4.7m), reflecting an increase in trade payables and accruals at the year end associated with the increased level of operating activities. Net assets were £17.1m (2016: £25.9m).

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 the prior period. 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 Strategic Review on pages 18 and 19.

Richard Bungay
Chief Financial Officer
5 September 2017

How we manage risk

The management of risk is a key responsibility of the Board of Directors. The Board ensures that all key risks are understood and appropriately managed considering the Group's strategy and objectives, and that an effective risk management process, including appropriate internal controls, is in place to identify, quantify, minimise and manage important risks.

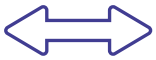
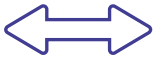
The Audit Committee oversees risk management on behalf of the Board. During the year, the Audit Committee has overseen the implementation of a comprehensive risk register, which has a number of key objectives:

+ to confirm and communicate key risks facing the Group;
+ to establish and promote the importance of risk management across the Group;
+ to establish a methodology for assessment of risk and to ensure those risks assessed as having a higher level of impact are proactively managed; and
+ to assign responsibility management of each risk.

Operational risk management

To effectively manage the business, including risks, the Group regularly reviews progress of key activities as follows:

+ The Board of Directors meets regularly and reviews operational progress against the Group's strategy and key objectives.
+ The Audit Committee meets regularly and will review the risk register and mitigating action plans to ensure that these address risks to achieving the Group's strategy and objectives.
+ The senior management team meets at least once a month to review operational progress and, during these meetings, identify and discuss areas of risk and communicate these to the Board as appropriate.
+ Commercial, Development and Quality teams, in addition to project teams, meet at least once a month to review progress of all key projects and identify key issues for discussion with the senior management team.

Risk description	Key mitigation	Change
Approval of products	For Infacort®, the Group discussed requirements with the European Medicines Agency (EMA) and has used subject matter experts alongside its highly experienced internal team for compilation of the regulatory dossier and response to questions raised during the review process.	
Delays in clinical study enrolment	Timely subject enrolment is a common challenge for pharmaceutical development. The Group seeks to proactively address this with detailed feasibility, careful selection of Contract Research Organisations appropriate for the size and complexity of a particular study, and close operational oversight of projects, including weekly update reports.	 Increase in number, size and complexity of clinical trials.
Design of suitable clinical trials including agreement of regulatory endpoints	With the Group's focus on underserved endocrine diseases, regulatory development pathways are by their nature less well defined. The Group seeks to engage with key opinion leaders, patient groups and regulators at an early stage to identify factors having a significant impact on patients' quality of life and health outcomes suitable for assessment in clinical studies.	
Reimbursement	Both Infacort® and Chronocort® Phase III programmes include follow-on studies designed to assess longer-term impact of these therapies on important clinical measures that impact patient quality of life. The Group has engaged specialist market access consultants to ensure expected benefits are well-understood by payers.	 Increased pressure on global healthcare budgets.

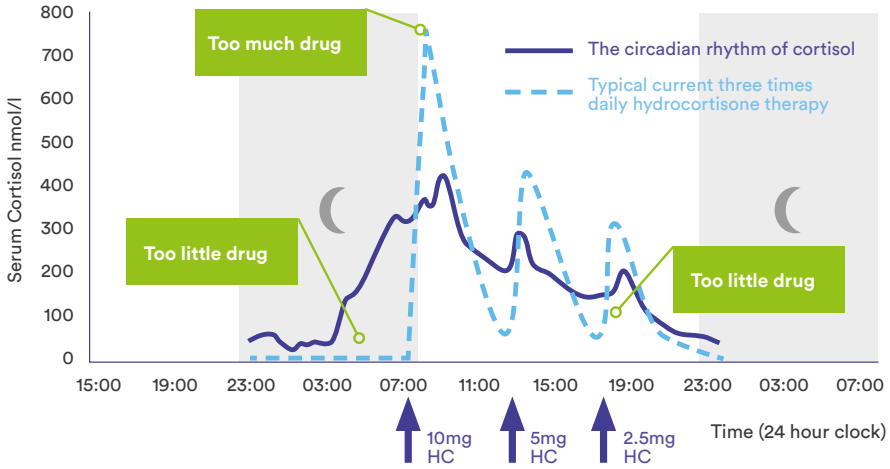
Risk description	Key mitigation	Change
Significant exchange rate movements	The Group assesses its currency needs on a rolling basis and either holds currency deposits or will enter into forward exchange arrangements to provide certainty against its budgeted exchange rates for expenditure in Euros and US Dollars. Over time, revenues from planned product launches in Europe and the US should provide a natural hedge for operating expenses.	 Volatility in value of Sterling versus Euro and US Dollar post-Brexit vote.
Disruption of product supply	The Group currently has a single source of supply for both Infacort® and Chronocort® capsules. The Group aims to maintain sufficient stocks of both clinical and commercial material such that it would able to transfer manufacturing in the event of disruption to product supply.	
Failure to protect products	During the year and up to the date of this report, the Group received notification of grant of three Composition of Matter patents for Infacort® and one for Chronocort® in the US and continues to prosecute patents for both Infacort® and Chronocort® globally. The Group also has Orphan Drug designation for both Infacort® and Chronocort® in the US and Europe.	 Key patents granted in US.
Distribution of products	During the year, the Group implemented a supply chain that is entirely within the Eurozone in order to minimise customs, duty and VAT risks arising from the movement of goods between the UK and the Eurozone, pending understanding of future trading arrangements.	 Uncertainty on future trading arrangements with the EU.
Cybersecurity	The Group continues to rely on expert third party cloud-hosted applications, which provide cost-effective services with significant redundancy and disaster prevention and recovery strategies.	
Availability of finance	The Group continues to manage its existing cash resources carefully, ending the 2016/17 financial year with £19.9m. The Group meets regularly with new and existing investors to ensure the equity story is well-understood.	
Ability to attract and retain key staff	Following the IPO in December 2015 a competitive salary and benefits package including equity was implemented. The Group utilises a HR advisor to benchmark packages against the biotechnology sector and make recommendations to the Remuneration Committee.	

Case study

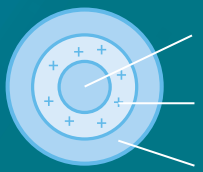
Chronocort®: mimicking the human circadian rhythm in diseases of cortisol deficiency

Current treatments for cortisol deficiency often lead to poor disease control

Cortisol is an essential hormone where a distinct circadian rhythm is required for health. Cortisol deficiency causes fatigue, depression and death through adrenal crisis. Around two-thirds of patients with congenital adrenal hyperplasia have poor disease control. A particular problem is a build up of sex hormones (androgens) in the night, leading to damage to the body. Current therapy does not adequately control overnight androgen levels.



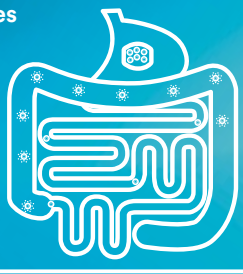
Chronocort's formulation is designed to mimic the human circadian rhythm of the essential hormone, cortisol



Chronocort's delayed-release coat is pH sensitive...

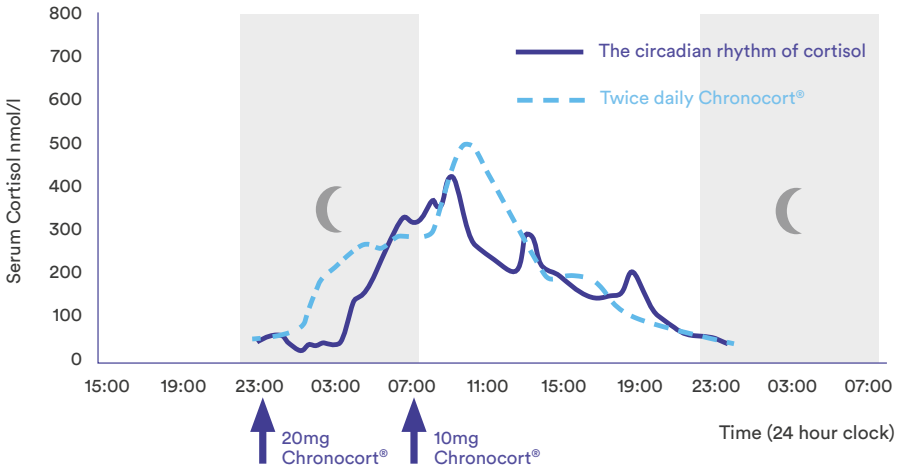
Proximal small intestine	pH <6.8
Distal small intestine	**pH >6.8**
Proximal colon	pH <6.8
Terminal colon	pH <6.8

...leading to targeted delivery in the small intestine approximately 4–5 hours after ingestion of the capsules



Chronocort is designed to mimic the human circadian rhythm of cortisol based upon a twice-daily "toothbrush" dosing regimen

Phase II results show Chronocort® improves disease control with morning androgens controlled in 94% of patients on Chronocort® compared to 31% on standard treatment. This control is expected to lead to significant clinical benefits for patients.

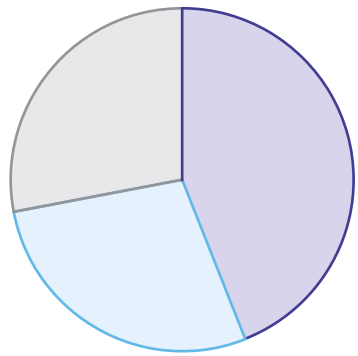


Mallappa et al. JCEM (2014)

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended 30 June 2017. The Board believes that strong governance is a central element of the successful growth and development of the Group. The Board and its Committees play a key role in the Group's governance by providing an independent perspective to the senior management team, and by seeking to ensure that an effective system of internal controls and risk management procedures is in place. This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 30 June 2017.

Board membership



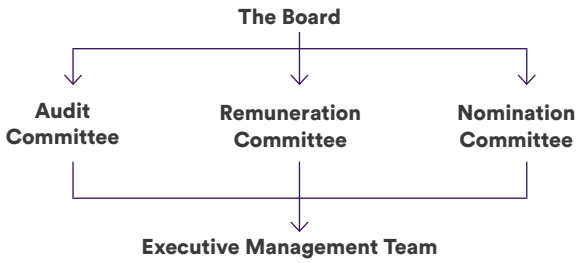
Executive Director
Non-Executive Director
Independent Non-Executive Director

Our governance framework

See below for the role of the Board and its committees.

Board

The Board comprises seven Directors. We have two Executive Directors, a Non-Executive Chairman, one Independent Non-Executive Director and two further Non-Executive Directors.



Audit Committee

Key responsibilities
The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting and risk management.

Membership at 30 June 2017
+ John Goddard (Chairman)
+ Peter Allen
+ Alan Raymond
+ Sam Williams

Meetings held in 2017
4

Nomination Committee

Key responsibilities
The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board including appointments to the Executive Management Teams.

Membership at 30 June 2017
+ Peter Allen (Chairman)
+ John Goddard
+ Alan Raymond
+ Sam Williams

Meetings held in 2017
1

Remuneration Committee

Key responsibilities
The Remuneration Committee recommends the Group's policy on remuneration and determines the levels of remuneration for the Executive Management Team and the Chairman.

Membership at 30 June 2017
+ Alan Raymond (Chairman)
+ John Goddard
+ Peter Allen
+ Sam Williams

Meetings held in 2017
2

Board of Directors

The right team to deliver

Peter Allen, BA ACA

Non-Executive Chairman

Appointed
1 July 2015[1]

Skills and experience
Peter has over 20 years' experience in senior board positions in a wide portfolio of healthcare companies. Peter was formerly 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.

Other roles
Non-executive Chairman of Advanced Medical Solutions plc, Future plc, Clinigen plc and Oxford Nanopore Technologies Ltd.

Martin Whitaker, BSc PhD

Chief Executive Officer

Appointed
22 August 2012[1]

Skills and experience
Martin 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. 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). He is Honorary Professor of Medical Innovation at The University of Sheffield.

Other roles
Director of D3 Pharma Limited.

Richard Bungay, BSc ACA

Chief Financial Officer and Company Secretary

Appointed
13 January 2017

Skills and experience
Richard has over 20 years' experience in senior finance and strategic roles within the pharmaceutical and biotechnology sector, mostly recently as CFO and COO of Mereo BioPharma, a company focused on developing treatments for rare and specialty diseases. His prior experience includes CFO of Glide Technologies. CFO of Verona Pharma, CEO (formerly CFO) of Chroma Therapeutics, Director of Corporate Communications and Strategic Planning at Celltech and finance director of the Respiratory and Inflammation therapy area at AstraZeneca. He qualified as a chartered accountant with Deloitte and has a first class degree in Chemistry from Nottingham University.

Other roles
Director of Chroma Therapeutics Ltd and Non-Executive Director of Glide Pharmaceutical Technologies Ltd.

Richard Ross, MBBS MD FRCP

Chief Scientific Officer

Appointed
29 September 2004[1]

Skills and experience
Richard is a founding Director of Diurnal 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.

Other roles
Director of Asterion Limited

John Goddard, BA FCA MCT

Independent Non-Executive Director

Appointed
6 November 2015[1]

Skills and experience
John 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, John became Chairman of two AstraZeneca subsidiaries, Aptium Oncology in the US and Astratech in Sweden. John is a Fellow of the Institute of Chartered Accountants and a Member of the Association of Corporate Treasurers.

Other roles
Non-Executive Director of Oxford Pharmascience plc and Intas Pharmaceuticals Limited.

Sam Williams, MA PhD

Non-Executive Director, Board representative of IP Group plc

Appointed
29 October 2014[1]

Skills and experience
Sam has 20 years' experience in the biotechnology industry, both as a top-ranked equity analyst in the City and, subsequently, as an entrepreneur and Chief Executive. He is CEO of Istesso Limited, a London-based drug discovery company developing drugs for the treatment of autoimmune conditions, and holds a PhD in molecular biology from Cambridge University and a degree in Biology from Oxford University.

Other roles
Non-Executive Chairman of C4X Discovery Holdings Plc and Glythera Limited, and Head of Biotech at IP Group plc.

1. Appointed initially as a Director of Diurnal Limited; upon creation of the parent company immediately prior its IPO in December 2015, appointed to the Board of Diurnal Group plc 1 December 2015.

Alan Raymond, BSc PhD

Non-Executive Director Board representative of Finance Wales

Appointed
22 April 2015[1]

Skills and experience
Alan is an industry veteran with over 30 years of international marketing and general management experience within the pharmaceutical and biomedical industry. 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. 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.

Other roles
Non-Executive Chairman of AniPOC Ltd and Non-Executive Director of ADC Biotechnology Ltd.

Corporate governance report

The Board

The Board comprises seven Directors; three Executive Directors and four Non-Executive Directors, each bringing a different experience and background. Two of the Non-Executive Directors are considered by the Board to be independent: Peter Allen and John Goddard. Sam Williams and Alan Raymond represent key investors in the Company and, as such, are not considered to be independent. The Board considers there to be sufficient independence on the Board given the size and stage of development of the Group and that all the Non-Executive Directors are of sufficient competence and calibre to add strength and objectivity to the Board.

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 Group. 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 is responsible to the shareholders for the proper management of the Group and meets regularly and at least six times in the year to set the overall direction and strategy of the Group and to review operational and financial performance. The Board has also convened on an ad-hoc basis between scheduled Board meetings to review the strategy and activities of the business. The key responsibilities of the Board are as follows:

+ setting the Group's values and standards;
+ approval of long-term objectives and strategy;
+ approval of budgets and plans;
+ oversight of operations ensuring adequate systems of internal controls and risk management are in place, maintenance of accounting and other records and compliance with statutory and regulatory obligations;
+ review of performance in light of strategy and budgets, ensuring any necessary corrective actions are taken;
+ approval of the Annual Report and financial statements and major projects such as potential new product acquisitions;
+ changes to structure, size and the composition of the Board;
+ determining the remuneration policy for the executive Directors and approval of the remuneration of the Non-Executive Directors; and
+ review of communications with shareholders and the market.

All Directors receive appropriate and timely information 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. Updates are given to the Board on developments in governance and regulations as appropriate, including presentations from the Company's Nomad and legal advisors. The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs in order to carry out its roles. In addition, the Directors are able to obtain independent professional advice in the furtherance of their duties, if necessary, at the Group's expense.

At each Annual General Meeting (AGM) of the Company, one-third of the Directors shall retire from office by rotation provided always that all Directors must be subject to re-election at intervals of no more than three years. Directors appointed during any year are subject to re-election at the next AGM after taking office.

Conflicts of interest

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 Group. 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 Group 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 meetings

The Directors' attendance at Board and Committee meetings over the course of the 2016/17 financial year was as follows:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Meetings	Attended	Meetings	Attended	Meetings	Attended	Meetings	Attended
Executive								
Martin Whitaker	7	7	—	—	—	—	—	—
Richard Bungay	3	3	—	—	—	—	—	—
Richard Ross	7	6	—	—	—	—	—	—
Ian Ardill	4	4	—	—	—	—	—	—
Non-Executive								
Peter Allen	7	7	4	4	2	2	1	1
John Goddard	7	6	4	4	2	2	1	1
Alan Raymond	7	7	4	4	2	2	1	1
Sam Williams	7	6	4	4	2	2	1	1

Board performance evaluation

The Board has a process for evaluation of its own performance and that of its Committees and individual Directors, including the Chairman. The Board intends that these evaluations are carried out annually.

Board Committees

In order to effectively manage governance of the Group, the Board has delegated certain responsibilities to sub-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. All of the Board Committees are authorised to obtain, at the Group's expense, professional advice on any matter within their terms of reference and to have access to sufficient resources in order to carry out their duties.

Audit Committee including the Audit Committee Report

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.

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 also focuses on risk management processes within the Group and ensure that the appropriate controls and mitigation steps are implemented by the senior management team.

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.

Corporate governance report continued

Audit Committee including the Audit Committee Report continued

The Audit Committee met four times during 2016/17, to review:

+ the audit strategy and plan for the 2015/16 full year results;
+ the 2015/16 final results prior to their submission for approval to the full Board;
+ the 2016/17 interim results prior to their submission for approval to the full Board; and
+ the audit strategy and plan for the 2016/17 full year results.

During the year the Committee considered the appropriateness of accounting policies, including 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.

Any non-audit services that are to be provided by the external auditors are reviewed in order to safeguard auditor objectivity and independence. During the year the Committee considered the external auditor's procedures to safeguard independence and objectivity and the Committee confirmed 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 breakdown between audit and non-audit services is shown in Note 4 to the Financial Statements. The external auditor has the opportunity during the Audit Committee meetings to meet privately with Audit Committee members in the absence of executive management.

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.

Remuneration Committee

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

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 Directors' Remuneration Report is presented on pages 28 to 31.

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.

Nomination Committee

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

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 regarding 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.

Share dealing code

The Company has adopted a code on dealings in relation to the securities of the Company. 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.

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 pages 18 and 19 of this Annual Report. The Group maintains a risk register, which is reviewed and updated regularly. 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.

Employment

The Board recognises its legal responsibility to ensure the wellbeing, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for its visitors.

Financial and business reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all half year, final and price-sensitive reports and other information required to be presented by statute. The Board receives a number of reports to enable it to monitor and clearly understand the Group's financial position. Procedures have been put in place to ensure that price-sensitive information is identified effectively and all communications with the market are released in accordance with expected time scales.

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 Group'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 21 November 2017 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
5 September 2017

Remuneration report

Introduction

This report sets out the remuneration policy operated by the Group in respect of the Executive and Non-Executive Directors.

Remuneration Committee

The Remuneration Committee consists of Alan Raymond (Chairman), Peter Allen, John Goddard and Sam Williams.

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, as appropriate.

There were two 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;
+ reward delivery of value to shareholders and achievement of the Group's key strategic objectives;
+ motivate and retain business-critical employees; and
+ enable the Group to continue to attract high quality recruits.

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. At the time of the IPO, the Remuneration Committee performed a benchmarking of Executive and Non-Executive Director remuneration and concluded that the salary levels of the Executive Directors were currently positioned below mid-market levels. Reflecting the Group's progress towards entering a commercialisation phase, salaries have been increased to a mid-market position. Accordingly, with effect from 1 April 2017 the base salary of Martin Whitaker, Chief Executive Officer, was increased to £200,000. Richard Bungay, Chief Financial Officer, commenced employment with the Group on 16 January 2017 on a base salary of £150,000, which was increased to £170,000 on 1 May 2017.

Performance-related bonus

The Remuneration Committee, in discussion with the Executive Directors, establishes performance criteria at the beginning of each financial year that are aligned with the Group's strategic objectives and are designed to be challenging. Any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: 50% cash, 50% deferred share awards.

The number of ordinary shares comprised within deferred share awards will be set on grant at 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 performance criteria for the 2016/17 financial year included clinical (lead programmes and pipeline) and commercial milestones and have plan and stretch components. The Remuneration Committee have determined that no bonus should be paid in respect of the 2016/17 financial year since neither the stretch nor the plan components of the objectives were achieved. The performance criteria for the 2017/18 financial year 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, senior managers and all eligible staff 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 the Chief Executive Officer and up to 75% of salary for the Chief Financial Officer (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 were 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 other employees, at the Remuneration Committee's discretion, 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 Group's defined contribution plan, or, in the event an individual is unable to make pension contributions, 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 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 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, primarily through the acquisition of shares under share option agreements. An Executive Director 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 Group's discretionary share based employee incentive schemes until the guideline is met.

Directors' service contracts

The Group'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.

At each 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 December 2015	12 months
Richard Bungay	16 January 2017	6 months
Richard Ross[1]	21 December 2015	3 months
Non-Executive		
Peter Allen	21 December 2015	3 months
John Goddard	21 December 2015	3 months
Alan Raymond[2]	21 December 2015	3 months
Sam Williams[3]	21 December 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%.

Remuneration report continued

Directors' remuneration (audited)

The remuneration of the Directors who held office during the periods ended 30 June 2017 and 2016 were as follows:

Name	Basic salary and fees £000	Bonus £000	Benefits £000	Compensation for loss of office £000	Total emoluments 2016/17 £000	Pension contributions 2016/17 £000	Total emoluments 2015/16[6] £000	Pension contributions 2015/16 £000
Executive								
Martin Whitaker	170	—	1	—	171	23	240	8
Richard Bungay[1]	73	—	1	—	74	7	—	—
Ian Ardill[2]	120	—	1	11	132	7	195	7
Richard Ross[3]	—	—	—	—	—	—	—	—
Non-Executive								
Peter Allen	50	—	—	—	50	—	45	—
John Goddard[4]	15	—	—	—	15	—	10	—
Alan Raymond	29	—	—	—	29	—	29	—
Sam Williams[5]	29	—	—	—	29	—	15	—
	486	—	3	11	500	37	534	15

Directors' emoluments include emoluments due to the Directors of Diurnal Group plc.

1. Appointed 16 January 2017.
2. Resigned 12 January 2017.
3. 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.
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%.
6. Total emoluments for 2015/16 include the bonus payable in cash in relation to the 2015/16 financial year. Deferred share awards were made following the issue of the Annual Report in October 2016 based on the following values which will be adjusted as necessary to neutralise the cost of exercise as nominal cost options: Martin Whitaker (£80,000) and Ian Ardill (£26,000). Details of the deferred share awards are shown below.

Directors' share options and awards

Directors holding office at 30 June 2017 had the following options outstanding over ordinary shares:

Date of grant/award	Exercise price	At 1 July 2016	Granted in the year	Exercised	Lapsed	At 30 June 2017	Latest vesting date
Executive							
Martin Whitaker							
1 July 2008 option grant	£0.002	44,500	—	—	—	44,500	Vested
1 December 2008 option grant	£0.002	55,000	—	—	—	55,000	Vested
17 February 2010 option grant	£0.002	75,000	—	—	—	75,000	Vested
20 July 2011 option grant	£0.002	50,000	—	—	—	50,000	Vested
22 August 2012 option grant	£0.002	200,000	—	—	—	200,000	Vested
11 September 2015 option grant	£0.4377	495,000	—	—	—	495,000	11 September 2018
8 November 2016 Deferred bonus share award	£0.05	—	69,565	—	—	69,565	8 November 2017
8 November 2016 Performance share award	£0.05	—	133,333	—	—	133,333	8 November 2021
		919,500	202,898	—	—	1,122,398	
Richard Bungay							
8 May 2017 Performance share award	£0.05	—	404,762	—	—	404,762	8 November 2021
		—	404,762	—	—	404,762	
Richard Ross							
1 July 2008 option grant	£0.002	862,000	—	—	—	862,000	Vested
22 August 2012 option grant	£0.002	157,000	—	—	—	157,000	Vested
23 September 2015 option grant	£0.002	330,000	—	—	—	330,000	23 September 2018
		1,349,000	—	—	—	1,349,000	

Date of grant/award	Exercise price	At 1 July 2016	Granted in the year	Exercised	Lapsed	At 30 June 2017	Latest vesting date
Non-Executive							
Peter Allen							
23 September 2015 option grant	£0.002	69,000	—	—	—	69,000	23 September 2018
12 April 2016 option grant	£0.002	104,421	—	—	—	104,421	24 December 2018
		173,421	—	—	—	173,421	
John Goddard							
12 April 2016 share award[1]	£0.05	32,374	—	—	—	32,374	24 December 2018
		32,374	—	—	—	32,374	

1. The Share awards made to John Goddard are exercisable as follows: 10,791 on 24 June 2017, 10,791 on 24 December 2017 and 10,792 on 24 December 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.

Directors' interests in the share capital of the Company as at the date of this report are shown in the Directors' Report on page 33.

The shares trade on the AIM market of the London Stock Exchange under the ticker symbol "DNL". The shares were admitted to trading on 24 December 2015 at a price of 144 pence and a market capitalisation of £75.2m prior to which the shares were not publicly traded.

At 30 June 2017 the market price of the Company's shares was 131 pence per share and the market capitalisation was approximately £68.5m.

On behalf of the Board

Alan Raymond
Remuneration Committee Chairman
5 September 2017

Directors' report

The Directors present their report and the audited financial statements for Diurnal Group plc (the "Company") and its subsidiary (together, the "Group") for the year ended 30 June 2017.

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.

Review of the business and future development

The Strategic Report describes research and development and commercialisation activity during the year and outlines future planned developments. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the Financial Review. Principal risks and key performance indicators are outlined in the Strategic Report.

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.

Results and dividends

The Group recorded a loss for the year before taxation of £12.2m (2016: £7.1m). Further details are provided in the Financial Review. The Directors do not recommend payment of a dividend.

Research and development

During the year, the Group spent £8.3m (2016: £3.9m) in the continuing development of its product portfolio. These costs were expensed in accordance with the Group's accounting policy. Further details on the activities and nature of this expense are contained in the Operational review and Financial review.

Directors

The Directors of the Company are as follows and their details are set out on pages 22 and 23. All Directors served throughout the financial year and subsequently to the date of signing of the financial statements except as noted below:

Name	Title	Date of appointment	Date of resignation
Peter Allen	Non-Executive Chairman		
Martin Whitaker	Chief Executive Officer		
Richard Bungay	Chief Financial Officer	16 January 2017	
Ian Ardill	Chief Financial Officer		12 January 2017
Richard Ross	Chief Scientific Officer		
John Goddard	Non-Executive Director		
Alan Raymond	Non-Executive Director		
Sam Williams	Non-Executive Director		

Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the Directors, indemnifying them against certain liabilities which may be incurred by them in relation to the Group.

Directors' interests

The interests of the Directors in the ordinary share capital of the Company at the date of this report are as follows:

	5 September 2017	
Name	Ordinary shares of £0.05 each in Diurnal Group plc	% of issued share capital
Executive		
Martin Whitaker	11,111	0.02
Richard Bungay	—	—
Richard Ross	1,553,944	2.98
Non-Executive		
Peter Allen	74,722	0.14
John Goddard	16,192	0.03
Alan Raymond[1]	22,888	0.04
Sam Williams[2,3]	46,748	0.09

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.

Health, safety and environment

The Directors are committed to ensuring the highest standards of health and safety for the employees of the Group. The Directors are also committed to minimising the impact of the Group's operations on the environment.

Political and charitable donations

The Group made charitable donations during the year of £nil (2016: £7k). No political donations were made in either financial year.

Financial risk management

A description of financial risk management, including the use of financial instruments by the Group, is set out in Note 20 to the financial statements.

Significant shareholdings

At 13 October 2017 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 share capital
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	4,246,833	8.1

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.

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, London EC1A 4HD on Tuesday 21 November 2017 at 11.30 a.m. Full details of the business to be transacted at the AGM can be found in the Notice of Annual General Meeting on pages 59 and 60 of this report.

On behalf of the Board

Richard Bungay
Company Secretary
5 September 2017

Statement of 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 International Financial Reporting Standards (IFRS) as adopted by the EU (EU IFRS) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 judgments and estimates that are reasonable and prudent;
+ state whether they have been prepared in accordance with IFRSs as adopted by the EU;
+ assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
+ use the going concern basis of accounting unless they intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

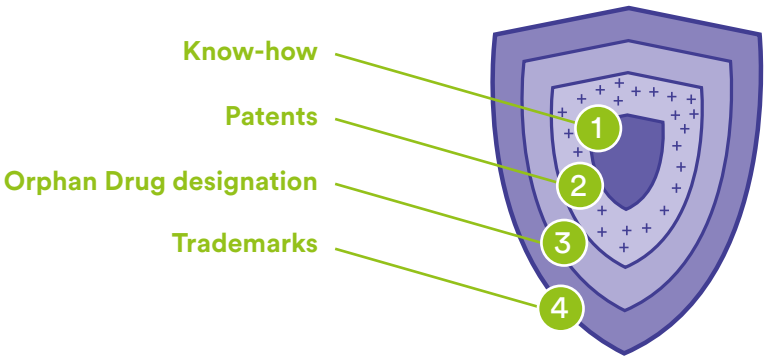
Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Case study

Protecting our products: intellectual property

Robust intellectual property strategy

Diurnal protects its products using a multi-layered approach, including its internal expertise (know-how), patents covering its products in major territories, Orphan Drug designations and trademarks.



1 Know-how

Diurnal's team has considerable expertise in the selection of formulation technologies and approaches and combining these to give the desired therapeutic profile and also to create a novel, patentable product.

10 See how this links to our strategy on page 10

2 Patents

Diurnal has filed patents in relation to its novel product pipeline, of which a number are granted. A key milestone achieved during 2017 was the grant of the three key patents in the US relating to the Infacort® formulation. These patents will provide robust in-market protection for Infacort® in a key geographic market.

10 See how this links to our strategy on page 10

3 Orphan Drug Designation

Infacort® and Chronocort® have Orphan Drug designations in the US, which are expected to provide seven years of market and data exclusivity upon receiving regulatory approval. Similarly, Chronocort® has Orphan Drug designation in Europe which is expected to provide ten years of market and data exclusivity upon receiving regulatory approval. A paediatric use marketing authorisation (PUMA) was filed for Infacort® in 2016 which, if approved, is expected to provide ten years of market and data exclusivity in Europe.

4 Trademarks

Diurnal has undertaken extensive brand development for its late-stage products and protects this investment through careful selection of brand names and registering these as trademarks in all of its key territories.

- Infacort®
- Chronocort®
- DITEST™

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

1 Our opinion is unmodified

We have audited the financial statements of Diurnal Group plc ("the Company") for the year ended 30 June 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, Company balance sheet, consolidated and Company statements of changes in equity, consolidated and Company cash flow statements, and the related notes, including the accounting policies in Note 2.

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 2017 and of the Group's loss for the year then ended;
+ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
+ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
+ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Completeness of capitalised development costs
Refer to page 25 (Audit Committee Report), page 44 (Accounting Policy) and page 47 (financial disclosures).

The risk
+ Accounting treatment – Project development costs are capitalised if they meet the criteria of relevant accounting standards, which require, among other things, an assessment of the technical stage of the project and of the future commercial out-turn of the project. These costs are otherwise expensed as incurred. The Group has two assets currently in development at different stages in the regulatory process. The Group is developing its own products through a regulatory review to commercialisation, which is a rare situation in the industry, and the Group has no track history of commercialising such products. The point at which commercial viability is demonstrated may differ for each project depending on the specifics of the marketing approval granted by the regulator and involves uncertainty. Due to the above, assessing whether the capitalisation criteria are met is inherently judgemental and there is a risk that the appropriate point in time for capitalisation is not identified appropriately and therefore costs continue to be expensed when they should be capitalised.

Our response
Our procedures included:

+ Testing application – We reviewed the status of the two projects currently ongoing and to which the majority of research and development spend relates. We identified the technical and commercial status of each of these projects and made an assessment of how the status of each project compared to the capitalisation criteria set out in IAS 38. This included an assessment of the likely commercial impacts of marketing approval for Infacort in particular due to the in-market protection required for commercialisation to be a success.
+ Inspection of reports – We corroborated the status of the two projects by reviewing project milestone announcements, analysing reports from third party technical consultants and contractors, and where available communications and documentation from the regulator regarding approval of the projects.

Recoverability of carrying value of investment in subsidiary (parent company only)
Refer to page 25 (Audit Committee Report) and page 50 (financial disclosures).

The risk
+ Forecast-based valuation – The parent company balance sheet includes an investment in a trading subsidiary of £15.4m and a receivable from that subsidiary of £11.0m. The subsidiary currently has no revenues and therefore the Company's assessment of potential impairment is inherently subjective. There is a risk that the investment and/or the receivable may be impaired.

Our response
Our procedures included:

+ Comparing valuations – We reviewed external third party specialist valuation reports which valued the two assets that the subsidiary is currently developing, and compared the total to the carrying value of the investment and the receivable recorded in the parent company.
+ Assessing valuers' credentials – We assessed the qualifications, experience, and objectivity of the asset valuation specialists whose reports we reviewed.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £460,000 (2016: £318,000), determined with reference to a benchmark of Group loss before taxation, of which it represents 3.8% (2016: 4.5%).

Materiality for the parent company financial statements as a whole was set at £390,000 (2016: £318,000), determined with reference to a benchmark of Company net assets, of which it represents 0.9% (2016: 0.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £23,000 (2016: £16,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

3 Our application of materiality and an overview of the scope of our audit continued

Audits for Group reporting purposes were performed by the Group audit team at all 2 (2016: 2) of the Group's reporting components, all of which are in the UK. These audits covered 100% (2016: 100%) of: total Group revenue, Group loss before taxation and total Group assets. Component materiality levels were set individually for both components having regard to the mix of size and risk profile of the Group across the components, and was £390,000 in each case (2016: £295,000 to £318,000).

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

+ we have not identified material misstatements in the strategic report and the Directors' report;
+ in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
+ in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 34, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

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.

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

6 September 2017

Consolidated income statement
for the year ended 30 June 2017

	Note	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Research and development expenditure		(8,340)	(3,886)
Administrative expenses	4	(3,734)	(3,106)
Other operating income		9	—
Operating loss		(12,065)	(6,992)
Financial income	6	182	63
Financial expense	7	(272)	(133)
Loss before tax		(12,155)	(7,062)
Taxation	8	2,730	491
Loss for the year		(9,425)	(6,571)
Basic and diluted loss per share (pence per share)	9	(18.0)	(15.0)

All activities relate to continuing operations.

Consolidated statement of comprehensive income
for the year ended 30 June 2017

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Loss for the year	(9,425)	(6,571)

Consolidated balance sheet
as at 30 June 2017

	Note	2017 £000	2016 £000
Non-current assets			
Intangible assets	10	4	6
Property, plant and equipment	11	18	3
		22	9
Current assets			
Trade and other receivables	13	4,025	530
Held to maturity financial assets	14	11,000	14,000
Cash and cash equivalents	15	8,881	16,114
		23,906	30,644
Total assets		23,928	30,653
Current liabilities			
Trade and other payables	16	(3,341)	(1,480)
		(3,341)	(1,480)
Non-current liabilities			
Loans and borrowings	17	(3,511)	(3,239)
		(3,511)	(3,239)
Total liabilities		(6,852)	(4,719)
Net assets		17,076	25,934
Equity			
Share capital	18	2,616	2,610
Share premium		23,675	23,632
Consolidation reserve		(2,943)	(2,943)
Other reserve		1,458	1,458
(Accumulated losses)/retained earnings		(7,730)	1,177
Total equity		17,076	25,934

These financial statements were approved by the Board of Directors on 5 September 2017 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

Company balance sheet
as at 30 June 2017

	Note	2017 £000	2016 £000
Non-current assets			
Investments	12	15,351	15,351
Amount owed by subsidiary undertaking	12	10,923	117
		26,274	15,468
Current assets			
Trade and other receivables	13	28	19
Held to maturity financial assets	14	11,000	14,000
Cash and cash equivalents	15	8,211	15,005
		19,239	29,024
Total assets		45,513	44,492
Current liabilities			
Trade and other payables	16	(126)	(98)
		(126)	(98)
Non-current liabilities			
Loans and borrowings	17	(3,511)	(3,239)
		(3,511)	(3,239)
Total liabilities		(3,637)	(3,337)
Net assets		41,876	41,155
Equity			
Share capital	18	2,616	2,610
Share premium		23,675	23,632
Other reserve		1,458	1,458
Retained earnings		14,127	13,455
Total equity		41,876	41,155

These financial statements were approved by the Board of Directors on 5 September 2017 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

Consolidated and Company statements of changes in equity
for the year ended 30 June 2017

Group	Share capital £000	Share premium £000	Consolidation reserve £000	Other reserve £000	(Accumulated losses)/ retained earnings £000	Total £000
Balance at 30 June 2015	15,351	—	(2,943)	—	(6,367)	6,041
Loss for the year and total comprehensive loss for the year	—	—	—	—	(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 year and total comprehensive loss for the year	—	—	—	—	(9,425)	(9,425)
Equity settled share based payment transactions	—	—	—	—	518	518
Issue of shares for cash	6	43	—	—	—	49
Total transactions with owners recorded directly in equity	6	43	—	—	518	567
Balance at 30 June 2017	**2,616**	**23,675**	**(2,943)**	**1,458**	**(7,730)**	**17,076**

Company	Share capital £000	Share premium £000	Other reserve £000	Retained earnings £000	Total £000
Balance at incorporation 28 October 2015	—	—	—	—	—
Loss for the year and total comprehensive loss for the year	—	—	—	(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
Profit for the year and total comprehensive profit for the year	—	—	—	154	154
Equity settled share based payment transactions	—	—	—	518	518
Issue of shares for cash	6	43	—	—	49
Total transactions with owners recorded directly in equity	6	43	—	518	567
Balance at 30 June 2017	**2,616**	**23,675**	**1,458**	**14,127**	**41,876**

Profit or loss for the year is the only constituent of total comprehensive profit or loss for each year so the amounts are shown in the same line in the consolidated and Company statements of changes in equity.

Consolidated and Company cash flow statements
for the year ended 30 June 2017

	Note	Group		Company	
		Year ended 30 June 2017 £000	Year ended 30 June 2016 £000	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Cash flows from operating activities					
(Loss)/profit for the year		(9,425)	(6,571)	154	(533)
Adjustments for:					
Depreciation, amortisation and impairment		7	6	—	—
Share-based payment	19	518	490	518	363
Financial income	6	(182)	(63)	(182)	(23)
Finance expenses	7	272	133	272	133
Taxation	8	(2,730)	(491)	—	—
Increase in trade and other receivables		(771)	(135)	(15)	—
Increase in amount owed to subsidiary undertaking		—	—	(776)	—
Increase in trade and other payables		1,861	1,081	29	98
Cash used in operations		(10,450)	(5,550)	—	38
Interest paid		—	—	—	—
Tax received	8	—	491	—	—
Net cash used in operating activities		(10,450)	(5,059)	—	38
Cash flows from investing activities					
Additions of property, plant and equipment		(20)	—	—	—
Purchases of held to maturity financial assets		(11,000)	(14,000)	(11,000)	(14,000)
Disposal of held to maturity financial assets		14,000	—	14,000	—
Loan to subsidiary undertaking		—	—	(10,030)	(117)
Interest received		189	44	188	4
Net cash from/(used in) investing activities		3,169	(13,956)	(6,842)	(14,113)
Cash flows from financing activities					
Net proceeds from issue of share capital		48	24,516	48	24,516
Repayment of borrowings		—	(24)	—	—
Net proceeds from issue of borrowings		—	4,564	—	4,564
Net cash generated by financing activities		48	29,056	48	29,080
Net (decrease)/increase in cash and cash equivalents		(7,233)	10,041	(6,794)	15,005
Cash and cash equivalents at the start of the year		16,114	6,073	15,005	—
Cash and cash equivalents at the end of the year		8,881	16,114	8,211	15,005

1 Corporate information

The consolidated financial statements of Diurnal Group plc and its subsidiary (collectively, the "Group") for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 5 September 2017. Diurnal Group plc (the "Company" or the "parent") is a public limited company incorporated and domiciled in the United Kingdom, and registered in England (registered number: 09846650), whose shares are publicly traded. The registered office is located at Cardiff Medicentre, Heath Park, Cardiff CF14 4UJ.

The Group is a clinical stage specialty pharmaceutical business targeting patient needs in chronic endocrine (hormonal) diseases. Information on the Group's structure is provided in Note 12. Information on other related party relationships of the Group is provided in Note 22.

To facilitate its IPO in December 2015, the Company was incorporated as Project Dime Limited on 28 October 2015, acquired the entire issued share capital of Diurnal Limited under a share for share exchange on 1 December 2015 and reregistered as a public company and changed its name to Diurnal Group plc on 4 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 years presented in the Group and parent company 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

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.

Notes to the financial statements continued

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Intangible assets

Research and development

Expenditure on research and development activities is recognised in the income statement as an expense as incurred.

Expenditure on research and development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

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	ten 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	three 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 the Income Statement 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. In prior periods, the UK R&D Tax Credits that are payable to the Company were recognised when approved by the UK HM Revenue & Customs (HMRC), reflecting the limited history of making R&D Tax Credit claims to HMRC. In light of having established a history of R&D Tax Credit claims, with effect from the year ended 30 June 2017 the Group will recognise R&D Tax Credit claims on an accruals basis. Any such accrued amounts are estimates since they have not yet been agreed with HMRC.

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.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Employee benefits continued

Post retirement benefits

The Group operates a defined contribution pension scheme. Contributions to the pension scheme are expensed as they fall due.

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 consolidated 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 Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's Income Statement. The parent company's result for the year ended 30 June 2017 was a profit of £154k (year ended 30 June 2016: loss of £533k).

The separate financial statements of the Company had previously been presented in accordance with FRS101 Reduced Disclosure Framework. For the year ended 30 June 2017, the decision was taken to present the separate financial statements of the Company in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006, consistent with the presentation of the consolidated financial statements. There are no differences between the accounting policies under IFRS compared with FRS101; consequently the application of IFRS to the separate financial statements of the Company did not give rise to any transition adjustments for the comparative financial information.

The accounting policies used in the financial information are consistent with those used in the prior year. 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 2 *Share-based payment* amendments to clarify the classification and measurement of share-based payment transactions effective 1 January 2018
+ IFRS 9 *Financial Instruments* effective 1 January 2018
+ IFRS 15 *Revenue from Contracts with Customers* effective 1 January 2018
+ IFRS 16 *Leases* effective 1 January 2019
+ IFRS 17 *Insurance contracts* effective 1 January 2021
+ IAS 1 *Presentation of Financial Statements* Amendments as result of the Disclosure initiative effective 1 January 2017
+ IAS 7 *Statement of Cash Flows* Amendments as result of the Disclosure initiative effective 1 January 2017
+ IAS 12 *Income Taxes* Amendments regarding the recognition of deferred tax assets for unrealised losses effective 1 January 2017
+ IAS 40 *Investment Property* Amendments to clarify transfers of property to, or from, investment property effective 1 January 2018

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 Group's and Company's accounting policies, which are described in Note 2, 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 19 and to the convertible loan, which is described in Note 17; the key judgement being the discount rate, assumed as 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.

Notes to the financial statements continued

2 Significant accounting policies and basis of preparation continued

2.3 Critical accounting judgements and key sources of estimation uncertainty continued

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 expensed 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

Though the Group and Company continue to make losses, the Directors believe it is appropriate to prepare the financial information on the going concern basis. This is because the Group's research into new products continues to progress according to plan and the funding secured at the IPO in December 2015 will allow it to meet its liabilities as they fall due for at least twelve months from the date of authorisation for the issue of these consolidated financial statements.

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, one 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 two 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; and
  + 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; and
  + 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 Consolidated 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:

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Depreciation	5	2
Amortisation	2	4
Research & development expenditure	8,340	3,886
Auditor's remuneration		
– fees payable to Company auditor for the audit of the parent company and consolidated financial statements	23	19
– auditing the accounts of the subsidiary pursuant to legislation	6	5
– 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	29	156

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

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £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
Employer NIC provision on unapproved share options – initial recognition of historical liability	—	119
	—	1,044

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:

	Year ended 30 June 2017 Number	Year ended 30 June 2016 Number
Research and Development	9	4
Administration	6	4
	15	8
Non-Executive Directors	4	4
	19	12

Notes to the financial statements continued

5 Staff costs continued

Their aggregate remuneration, including Directors, comprised:

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Wages and salaries	1,239	723
Non-Executive Director fees	123	99
Social security	148	97
Pension	72	27
Other benefits	9	7
Share based payments (see Note 19)	518	490
	2,109	1,443

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

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Interest receivable on cash and cash equivalents and term deposits	182	63
Total finance income	182	63

7 Finance expenses

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Total interest payable on loans	272	133
Total finance expense	272	133

8 Taxation

The Group is entitled to claim tax credits in the United Kingdom under the UK research and development (R&D) small or medium-sized enterprise (SME) scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, and includes an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue & Customs (HMRC). The tax credit included in the Income Statement for the year ended 30 June 2016 reflected the approval by HMRC of the R&D tax credit claim in respect of the 13-month period ended 30 June 2015 with effect from the year ended 30 June 2017, the Group will reflect R&D tax credits on an accruals basis since it has established a track record of agreeing claims with HMRC. Consequently, the Income Statement for the year ended 30 June 2017 reflects the R&D tax credit claim for the year ended 30 June 2016, which was approved by HMRC in July 2017, along with the estimated claim for the year ended 30 June 2017. The amount in respect of the year ended 30 June 2017 has not yet been agreed with HMRC, although there is no reason to believe that this claim will be rejected.

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Current tax:		
– UK corporation tax on losses of year	—	—
– Research and development tax credit receivable for the current year	(1,819)	—
– Prior year adjustment in respect of research and development tax credit	(911)	(491)
Deferred tax:		
– Origination and reversal of temporary differences	—	—
Tax on loss on ordinary activities	(2,730)	(491)

8 Taxation continued

Reconciliation of total tax expense

The tax assessed for the year varies from the small company rate of corporation tax as explained below:

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Loss on ordinary activities before tax	(12,155)	(7,062)
Tax at the standard rate of UK corporation tax rate of 19.75% (2015/16: 20%)	(2,401)	(1,412)
Effects of:		
– Expenses not deductible for tax purposes	1	—
– Depreciation in excess of capital allowances	(3)	—
– Enhanced research and development relief	(741)	—
– Share based payments	102	104
– Prior year adjustments	(911)	(491)
– Tax losses carried forward	1,223	1,308
Current tax credits for the year	(2,730)	(491)

The Group has accumulated losses to carry forward against future profits of £14.7m (2016: £8.5m). No deferred tax asset has been recognised in respect of tax losses since it is uncertain at the balance sheet date as to whether future profits will be available against which the unused tax losses can be utilised due to the uncertainty of availability of future taxable profits. The estimated value of the deferred tax asset not recognised, measured at a standard rate of 17% is £2.5m (2016: £2.3m).

The standard rate of UK corporation tax was reduced from 20% to 19% with effect from 1 April 2017, giving rise to an effective rate of tax for the year ended 30 June 2017 of 19.75%.

9 Loss per share

	Year ended 30 June 2017	Year ended 30 June 2016
Loss for the year (£000)	(9,425)	(6,571)
Weighted average number of shares (000)	52,235	43,746
Basic and diluted loss per share (pence per share)	(18.0)	(15.0)

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

10 Intangible assets

Group	Patents and licences £000
Cost	
Balance at 30 June 2015	39
Additions	—
Balance at 30 June 2016	39
Additions	—
Balance 30 June 2017	39
Amortisation	
Balance at 30 June 2015	29
Charge for the year	4
Balance at 30 June 2016	33
Charge for the year	2
Balance at 30 June 2017	35
Net book value	
At 30 June 2015	10
At 30 June 2016	6
At 30 June 2017	4

Notes to the financial statements continued

11 Property, plant and equipment

Group	Equipment £000
Cost	
Balance at 30 June 2015	14
Additions	—
Balance at 30 June 2016	14
Additions	20
Balance 30 June 2017	34
Depreciation	
Balance at 30 June 2015	9
Charge for the year	2
Balance at 30 June 2016	11
Charge for the year	5
Balance at 30 June 2017	16
Net book value	
At 30 June 2015	5
At 30 June 2016	3
At 30 June 2017	18

12 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 the subsidiary was undertaken. No impairment has been made to investments in or the loan to the subsidiary undertaking in 2016/17. The fair value of the subsidiary company less costs to sell exceed the combined carrying values of the investment and the loan.

Company	Investment £000	Loan to subsidiary £000
Cost		
At 28 October 2015	—	—
Additions	15,351	117
At 30 June 2016	15,351	117
Additions	—	10,806
At 30 June 2017	15,351	10,923
Impairment		
At 28 October 2015	—	—
At 30 June 2016	—	—
At 30 June 2017	—	—
Carrying value at 28 October 2015	—	—
Carrying value at 30 June 2016	15,351	117
Carrying value at 30 June 2017	15,351	10,923

13 Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
VAT recoverable	300	37	10	—
Prepayments	705	345	18	19
Other debtors	290	148	—	—
Research and Development tax credit claims receivable	2,730	—	—	—
	4,025	530	28	19

14 Held to maturity financial assets

Group and Company	2017 £000	2016 £000
Bank term deposits	11,000	14,000

The effective interest rate on bank deposits was 0.64% and these deposits had a weighted average maturity of seven 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.

15 Cash and cash equivalents

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash at bank and on hand	8,881	16,114	8,211	15,005

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 20. 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.

16 Trade and other payables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade payables	1,724	235	58	4
Other tax and social security	65	36	—	—
Accrued expenses and deferred income	1,552	1,209	68	94
	3,341	1,480	126	98

Notes to the financial statements continued

17 Loans and borrowings

Group and Company	2017 £000	2016 £000
Non-current loans and borrowings		
Convertible Loans	3,511	3,239

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 2017, the amount outstanding comprised:

	2017 £000	2016 £000
Loan amount brought forward	3,239	—
Face value of convertible loan issued on 24 December 2015	—	4,651
Equity Component	—	(1,486)
Issue costs relating to the liability element	—	(59)
Accrued interest	272	133
Liability component at year end	3,511	3,239
Less amount included in current liabilities	—	—
Included in non-current liabilities	3,511	3,239

18 Share capital

	2017		2016	
	Number	£000	Number	£000
Ordinary shares of £0.05 each	52,320,759	2,616	52,210,759	2,610

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.

19 Share based payments

At 30 June 2017, the Group and Company had two types of share based payment awards, share options (including performance share awards) and deferred share bonus awards. All outstanding Diurnal Limited share option 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 conducted in December 2015 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, 729,000 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
1,108,500 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.

Performance share awards under the 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.

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.

Notes to the financial statements continued

19 Share based payments continued

Share options continued

IFRS 2 valuation – share options issued under the LTIP

The fair value of services received in return for performance share awards, restricted share awards, and market value option awards issued under the LTIP (but excluding deferred bonus awards) 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.

IFRS 2 valuation of deferred bonus awards issued under the LTIP are covered separately below.

Measurement assumptions are as follows:

Financial year ended	2017	2017	2016	2016	2016	2016
Deemed grant date	8 May 2017	8 November 2016	11 September 2015	23 September 2015	12 April 2016	12 April 2016
Award type	Performance share	Performance share	Share option	Share option	Share option	Share award
Share price	£1.26	£1.20	£0.625	£0.625	£1.470	£1.470
Exercise price	£0.05	£0.05	£0.438	£0.002	£0.002	£0.050
Expected volatility	25.9%	27.4%	65.0%	65.0%	67.6%	66.9%
Expected option life	5 years	5 years	5 years	5 years	5 years	2.7 years
Expected dividends	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Risk free interest rate	0.46%	0.62%	1.22%	1.20%	0.81%	0.43%
Fair value per award	£1.211	£1.152	£0.392	£0.623	£1.468	£1.421
Number of options/awards	404,762	479,660	1,108,500	729,000	104,421	32,374

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

	2017		2016	
	Weighted average exercise price £	Number of options	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	0.127	3,872,795	0.002	1,898,500
Granted during the year	0.05	884,422	0.284	1,974,295
Exercised during the year	0.438	(110,000)	—	—
Lapsed during the year	0.438	(220,000)	—	—
Outstanding at the end of the year	0.088	4,427,217	0.127	3,872,795
Exercisable at the end of the year	0.048	2,435,807	0.002	1,898,500

Deferred share bonus awards

The Group and Company operates a discretionary annual bonus scheme, under which any annual bonus for Executive Directors and certain other employees will be paid in 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 comprising 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.

19 Share based payments continued

Deferred share bonus awards continued

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	30 June 2016
Deemed grant date	1 July 2015
Award type	Deferred bonus share
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

No deferred share bonus awards will be made in respect of the financial year ended 30 June 2017.

The number and weighted average exercise prices of the deferred bonus share awards reflecting the actual grant date (rather than deemed grant date), are as follows:

	2017		2016	
	Weighted average exercise price £	Number of options	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	0.05	109,293	—	—
Exercised during the year	—	—	—	—
Lapsed during the year	—	—	—	—
Outstanding at the end of the year	0.05	109,293	—	—
Exercisable at the end of the year	—	—	—	—

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

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Share options	467	446
Deferred share awards	51	44
	518	490

Notes to the financial statements continued

20 Financial instruments

The Group's and 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 Group's capital management objectives.

Capital management

The Group considers capital to comprise the total equity and reserves of the Group and long term debt financing, including convertible loans issued. The Group'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 Group has financed its operations by a mixture of shareholders' funds and other borrowings and loan notes, as required. The Group's objective has been to obtain sufficient funding to meet development activities until the Group becomes profitable. During the year and for the foreseeable future the Group'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 Group has an outstanding interest free convertible loan at 30 June 2017 with an outstanding principal amount of £4.7m (30 June 2016: £4.7m) and invests its surplus funds in money market and short-term bank deposits. The Group would review the balance between fixed and floating rate debt if it takes on any future debt.

Liquidity risk

The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group, to manage liquidity risk. The Group 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 Group finances its operations through the issue of equity shares. The Group 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 June 2017					
	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	1,724	1,724	1,724	—	—	—
Borrowings[1]	3,511	4,651	—	—	4,561	—
	5,235	6,375	1,724	—	4,561	—

	30 June 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	—

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.

20 Financial instruments continued

Currency risk

The Group manages foreign currency exposure by matching expected currency outflows with inflows of the same currency to the extent possible. The Group 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.

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
1% increase in Euro	(10)	(9)
1% decrease in Euro	10	9
1% increase in US Dollar	(1)	(6)
1% decrease in US Dollar	1	6

Credit risk

The Group is exposed to credit risk from one source, namely its cash investments. The Group minimises 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

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Held to maturity financial assets		
Fixed rate – GBP	0.64%	1.05%
Cash and cash equivalents		
Floating rate – GBP	0.23%	0.50%
Floating rate – EUR	0.05%	0.05%

The following table considers the impact of a change of the Sterling interest rate of +/– 100 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.

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
1% increase in Sterling interest rate	82	161
1% decrease in Sterling interest rate	(82)	(161)

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.

21 Capital commitments

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

Notes to the financial statements continued

22 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 plc and subsidiaries, Ridings Early Growth Limited) were recorded, excluding VAT, during the year:

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Purchase of goods and services		
IP Group plc and subsidiaries	29	116
Finance Wales plc and subsidiaries	1	12
Ridings Early Growth Limited	—	2
	30	130

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 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 subsidiaries, 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 £4,650,588 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.

23 Ultimate controlling party

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

DIURNAL GROUP PLC

(Incorporated in England and Wales with registered number 09846650)

Notice is given that the 2017 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 Tuesday 21 November 2017 at 11.30 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 2017.
2. To reappoint Richard Bungay, who retires as a Director of the Company and offers himself for reappointment.
3. To reappoint Peter Allen, 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 2017.
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 £874,162.65 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 £1,748,325.30 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 the date which is 15 months from the date of this meeting (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).

Notice of Annual General Meeting continued

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 other pre-emptive offering):

        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 £131,124.39 (being equivalent to 5 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 the date which is 15 months from the date of this meeting (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.

14. That, subject to the passing of resolution 12 and pursuant to section 570 of the Act, the Directors be and are generally empowered in addition to any authority granted under resolution 13 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:

    14.1 up to a nominal amount of £131,124.39 (being equivalent to 5% of the nominal value of the issued share capital of the Company); and

    14.2 used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-emption Group prior to the date of this notice,

    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 the date which is 15 months from the date of this meeting (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.

15. 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 7,861,469 Ordinary Shares (being approximately 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:

    15.1 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

    15.2 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 the date which is 15 months from the date of this meeting (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.

16. That, the articles of association of the Company be amended by the deletion of existing article 107 and by replacing it with following new article 107:

"At each annual general meeting the following Directors will retire from office and be eligible for re-election:

+ any Directors who have been appointed by the Directors since the last annual general meeting; and
+ any Director who was not elected or re-elected at either of the two preceding annual general meetings."

By order of the Board

Richard Bungay
Company Secretary
13 October 2017

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 17 November 2017 (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 12 pence 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 17 November 2017 (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.

Notice of Annual General Meeting continued

Notes continued

Proxies continued

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 17 November 2017 (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 22 and 23 of the enclosed annual report and accounts.

Voting rights

10. As at 6.00 p.m. on 13 October 2017, the Company's issued share capital comprised 52,449,759 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 13 October 2017 is 52,449,759. The Company has no treasury shares.

Form of proxy

DIURNAL GROUP PLC

(Incorporated in England and Wales with registered number 09846650)

ANNUAL GENERAL MEETING

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 Tuesday 21 November 2017 at 11.30 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 Accounts for the year ended 30 June 2017			
2 To reappoint Richard Bungay as a Director of the Company			
3 To reappoint Peter Allen 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 2017			
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 to allot shares and to grant rights to subscribe for or convert any security into shares pursuant to section 551 of the Companies Act 2006 and to allot equity securities by way of rights issue			
Special Resolutions			
13 To authorise the Directors to allot equity securities pursuant to section 570 of the Companies Act 2006 in connection with a rights issue and general disapplication			
14 To authorise the Directors to allot equity securities pursuant to section 570 of the Companies Act 2006 in connection with an acquisition or other capital investment			
15 To authorise the purchase of shares pursuant to section 701 of the Companies Act 2006			
16 To amend the Company's articles of association by replacing Article 107			

Signature ..... Date 2017

(Please refer to Explanatory Notes 7 and 8).

Form of proxy continued

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 12 pence 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 17 November 2017 (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 17 November 2017 (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.

Diurnal is committed to environmental issues. This is reflected in this annual report which has been printed on Novatech Digital Silk, which is an FSC® Mix Certified paper, ensuring that all virgin pulp is derived from well-managed forests and other responsible sources.

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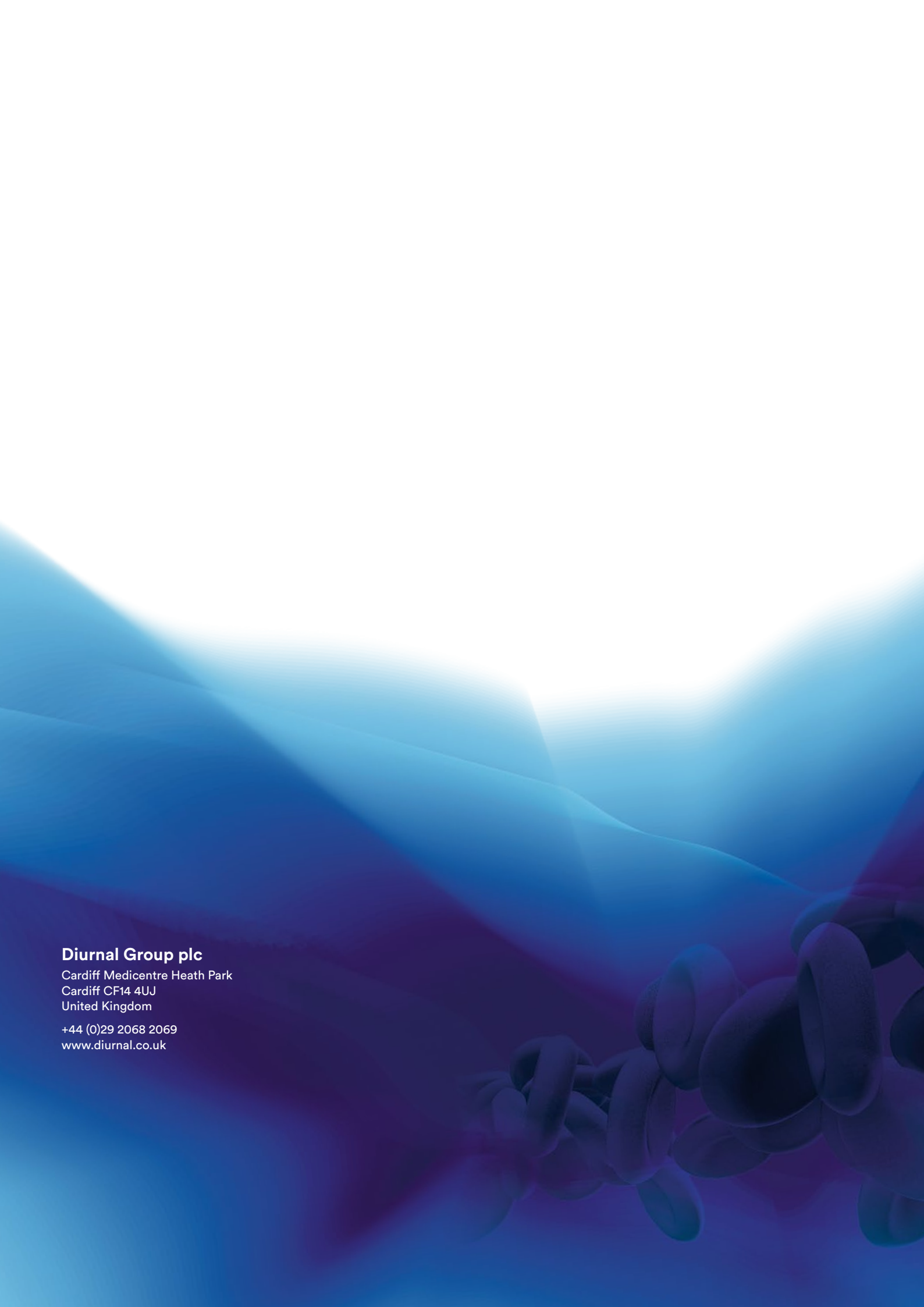

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