Diurnal

# Our patient first approach

**Diurnal Group plc** Annual Report 2018

# A UK-based, patient-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).




Find out more at
**diurnal.co.uk**

## Operational

+ Grant of a paediatric use marketing authorisation by the European Commission for Alkindi® (hydrocortisone granules in capsules for opening) as replacement therapy of adrenal insufficiency (AI) in infants, children and adolescents (from birth to <18 years old)
+ First launch of Alkindi® in Germany as replacement therapy of paediatric AI
+ Completion of patient recruitment for the European Phase III trial of Chronocort® (modified-release hydrocortisone) in congenital adrenal hyperplasia (CAH)
+ Grant of first US patent for Chronocort® and grant of first Japanese patents for Alkindi® and Chronocort®
+ Marketing and distribution agreement with Emerge Health for Alkindi® and Chronocort® in Australia and New Zealand executed

## Financial

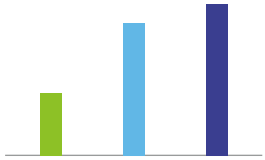
+ Successful completion of £10.5m placing with institutional and private investors to fund further development of Diurnal's late-stage pipeline
+ First commercial revenues recorded for the period from launch in May 2018
+ Operating loss of £16.8m (2017: £12.1m) reflecting increased investment in clinical and development activities and build-out of commercial organisation
+ Held to maturity financial assets, cash and cash equivalents at 30 June 2018 of £17.3m (30 June 2017: £19.9m)
+ Net cash used in operating activities was £12.8m (2017: £10.5m), in line with the Board's expectations

## Post-period highlights

+ Treatment phase of European Phase III trial of Chronocort® in CAH completed

**Research and development expenditure (£m)**

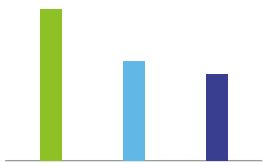
£10.0m



£3.9m 2016 £8.3m 2017 £10.0m 2018

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

£17.3m



£30.1m 2016 £19.9m 2017 £17.3m 2018

# Targeting patient needs in chronic endocrine diseases

## Our products

Late-stage "Adrenal Franchise"

### Alkindi® (development name: Infacort®)

+ Immediate-release hydrocortisone preparation targeting adrenal insufficiency (including congenital adrenal hyperplasia) in children under 18 years of age in Europe and 16 years of age in the US.
+ Successfully completed a European Phase III clinical trial in July 2016.
+ Market authorisation granted in Europe in February 2018.
+ First market launch in Germany in May 2018.
+ US Phase III registration programme scheduled to complete Q4 2018.

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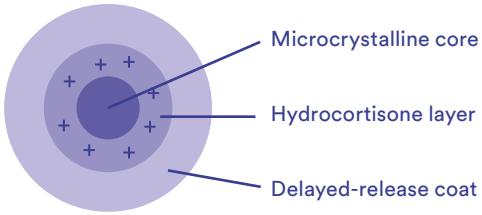
### Chronocort®

+ Modified-release hydrocortisone preparation, initially targeting congenital adrenal hyperplasia in adult patients.
+ Completed recruitment for a European Phase III clinical trial in February 2018.
+ US Phase III clinical trial due to commence in Q4 2018.




Read more on page 8

## Early-stage pipeline

### Native oral testosterone (DITEST™)

+ Testosterone replacement treatment for patients suffering from hypogonadism.
+ Scheduled to complete a Phase I/II proof-of-concept study in male hypogonadal patients around the end of 2018.

### siRNA

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

### T3 modified-release

+ A modified-release preparation of T3 (levothyroxine) hormone for patients suffering from hypothyroidism.
+ Formulation feasibility work planning underway.

Strong base position in orphan diseases

Credible market access strategy

Opportunities to broaden the offering

Strong team with ability to deliver

## Drug development pipeline

| Name | Indication | Pre-clinical | Phase I | Phase II | Phase III | Market | Est. regulatory opinion |
|---|---|---|---|---|---|---|---|
| **Alkindi®** | Paediatric adrenal insufficiency | EU | | | | | Approved |
| | | US | | | | | 2020 |
| **Chronocort®** | Congenital adrenal hyperplasia | EU | | | | | 2020 |
| | | US | | | | | 2021 |
| | Adrenal insufficiency | EU | | | | | TBC |
| | | US | | | | | TBC |
| **Native oral testosterone** | Hypogonadism | EU | | | | | TBC |
| | | US | | | | | TBC |
| **T3 modified-release** | Hypothyroidism | EU | | | | | TBC |
| | | US | | | | | TBC |
| **siRNA** | Cushing's | EU | | | | | TBC |
| | | US | | | | | TBC |

# From concept, to commercialisation

"The next 12 months are expected to see further significant progress in Diurnal."

During the last financial year, Diurnal continued to deliver against key milestones, culminating in the Group's first commercial product launch in May 2018 and generation of our first product revenues. This puts Diurnal amongst a small group of UK companies that have successfully taken a product from initial concept all the way to commercialisation. It has been possible due to a clear strategy, highly skilled staff, the support of physicians and patient groups, the backing of our investors and not least the patients who take part in our clinical trials.

## Delivering on strategy

With the recent launch of Alkindi®, Diurnal has become a fully integrated organisation with the capabilities to successfully design, develop and commercialise innovative products that address key unmet patient needs in chronic endocrine diseases. In the short-term, Diurnal has in place plans to roll out Alkindi® across key European markets, whilst maximising the potential for this product elsewhere through entry via local distribution or licensing arrangements. In the medium term, Diurnal plans to use the same infrastructure to commercialise Chronocort® in Europe, following the anticipated successful completion of the European Phase III study in congenital adrenal hyperplasia (CAH) and subsequent regulatory approval. Diurnal is also exploring the potential for Chronocort® in adrenal insufficiency (AI), a much larger market opportunity, as well as other potential indications. By leveraging its late-stage portfolio in this way, Diurnal believes that it can build a cash-generative business, providing the capability to invest both in its own innovative product portfolio as well as seeking new opportunities from external sources, to drive long-term growth for shareholders.

Diurnal's product development pipeline primarily comprises novel formulations of existing pharmaceutical agents, which the Board believes provides a lower development risk profile for investors, while providing substantial upside through successful registration and commercialisation of these products. Development of pharmaceutical products remains challenging across the industry, particularly in relation to evolving regulatory requirements and the pricing of pharmaceutical products. Pricing of novel, innovative products that are based upon existing active ingredients presents a particular pricing challenge. Diurnal believes that by focusing on rare and orphan diseases in the endocrine space, it can gain great insights into the burden of living with these diseases through our interactions with physicians and patient groups, and consequently is able to develop high-quality products that demonstrate clear clinical benefits, both to physicians and payers.

## Significant operational progress

During the year, Diurnal has continued to make significant progress with its innovative late-stage pipeline, focused on diseases of cortisol deficiency, meeting key milestones that underpin its future growth plans. In Europe, where Diurnal plans to build an in-house commercialisation capability, Alkindi® was approved in February 2018 and patient recruitment was completed in the Chronocort® European Phase III trial in the same month. Alkindi® was launched in Germany, utilising the highly experienced commercial team that Diurnal has built with Ashfield Healthcare (Ashfield), with further product launches planned over the coming months. In the US, where Diurnal's current plans are to seek a commercialisation partner, significant progress has been made in defining the regulatory path for these products, with Alkindi® approaching the end of its Phase III development programme and the Chronocort® registration studies scheduled to

commence in early Q4 2018. This progress was underpinned by the grant of key Alkindi® and Chronocort® patents during the year. In these key markets, Diurnal's late-stage pipeline is protected not only by an extensive patent portfolio, but also by strong regulatory designations providing data and market exclusivity on approval.

Outside of these territories, the Group continued to maximise the value of its late-stage development pipeline with the entry into a distribution arrangement for Australia and New Zealand, and the grant of key Alkindi® and Chronocort® patients in Japan.

## Strong financial position

Diurnal's IPO in December 2015, raising £30m before expenses, put it in a strong position to build a platform for growth. The Group further strengthened its financial position through the successful completion of a £10.5m fundraising in April 2018, which has enabled it to pursue the US development of Chronocort®, with the Phase III registration study in CAH due to commence shortly. Diurnal also believes that it is well placed to raise the further funds required to reach sustainable profitability. I would like to thank our existing and new shareholders for their support as Diurnal aims to make a real difference to patients without effective treatment options for chronic endocrine diseases.

## Governance and risk management

As the Group continues its rapid growth, the Board and senior management remain focused on maintaining a strong system of internal controls and appropriate risk management systems, to ensure that this growth is well controlled and does not compromise the integrity of the organisation. During the year, the Group formally adopted the QCA Corporate Governance Code, although in large part this represents a formalisation of existing governance practices of the Group.

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 potential disruption in movement of goods between the UK and Europe. Diurnal made the decision some time ago to place its commercial supply chain entirely within Europe, in order to minimise any cross-border trading impacts on the commercialisation of Alkindi® across Europe and continues to assess developments closely in the run up to Brexit in March 2019.

### A timeline of our year

**May 2018**
First commercial launch of Alkindi® in Germany

**April 2018**
Completion of placing, raising £10.5m before expenses

**March 2018**
Appointment of global CRO to support the US clinical development of Chronocort®

**February 2018**
Grant of first patents for Alkindi® and Chronocort® in Japan

**February 2018**
European paediatric use marketing authorisation (PUMA) received for Alkindi® in paediatric adrenal insufficiency

**January 2018**
Positive results from food matrix compatibility study intended to form part of US registration package for Alkindi®

**September 2017**
Grant of first patents for Alkindi® and Chronocort® in US

## People and culture

Throughout the period of rapid growth over the last few years, Diurnal has managed to retain an entrepreneurial culture, both in its direct employees and also in the commercial team built with Ashfield and the highly skilled contractors and consultants who support the business. The Board closely monitors the corporate culture through discussions with the executive management to ensure that it remains consistent with its strategy of being a small, focused specialty pharmaceutical player focused in the endocrine area. I would like to thank our employees for their continued support and hard work in driving the Group's successful commercialisation of its first product, whilst continuing to develop our innovative pipeline products to provide a solid platform for our future growth.

## Key milestones expected in the next 12 months

The next 12 months are expected to see further significant progress in Diurnal, with two major regulatory filings anticipated within the next year and continued launches of Alkindi® in key European markets. The next key milestone following the completion of recruitment and treatment in the Chronocort® European Phase III study for CAH is the report of headline data, expected in Q4 2018. Diurnal also plans to investigate the potential of Chronocort® in the larger AI market alongside the US registration study for Chronocort® in CAH. The Group continues discussions with interested parties to access key markets outside of Europe, and also remains mindful of external growth opportunities and continues to assess endocrinology assets that fit within its disease focus. Diurnal also expects to complete a further fundraising during the next year in order to support its growth plans.

I look forward with optimism and believe the Group is increasingly well positioned to achieve its ambition of becoming a world-leading, endocrinology-focused specialty pharma company, delivering significant value for our shareholders.

**Peter Allen**
Chairman
19 September 2018

# Progressing our commercialisation strategy

Alkindi®

hydrocortisone granules in capsules for opening

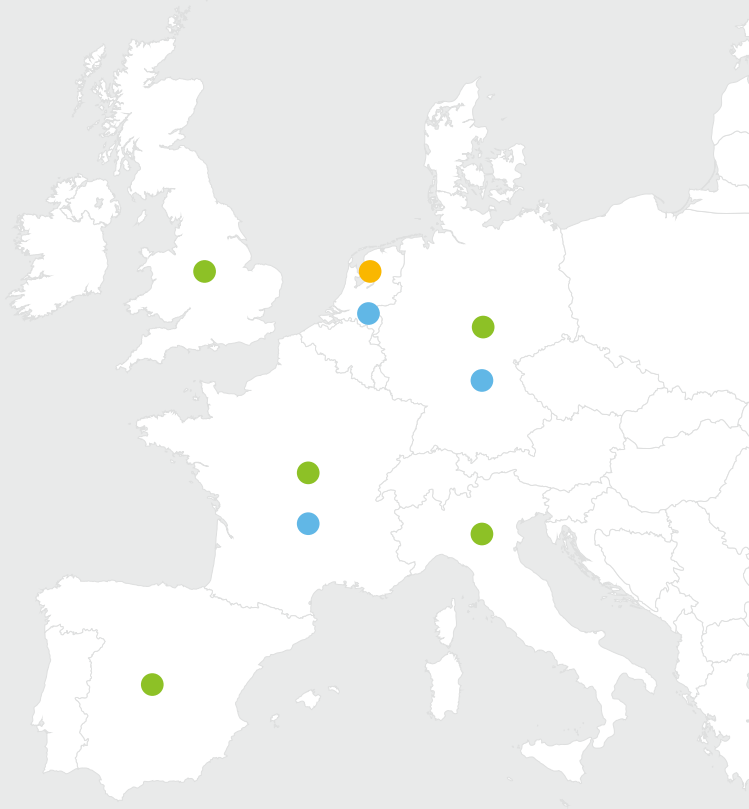
**4,000**
estimated Alkindi® patients in Europe

**$60m**
estimated Alkindi® market potential in Europe

In May 2018, Diurnal announced the launch of Alkindi® in Germany as a replacement therapy of adrenal insufficiency (AI) in infants, children and adolescents following the grant of European marketing authorisation in February 2018.

With an estimated 4,000 patients in Europe under the age of six requiring replacement therapy for AI due to congenital adrenal hyperplasia, primary adrenal failure or hypopituitarism, Diurnal intends to commercialise Alkindi® itself in major European markets.

Agreements are in place with internationally recognised organisations to ensure a solid commercial platform and supply chain for prompt European market access for Alkindi® and generation of revenues for the Group.



- Direct sales and marketing
- Manufacturing
- Distribution

# Improving patients' lives

**"With progress made over the past year, Diurnal believes that it can become one of the few UK biotechnology companies to successfully take multiple products from concept to commercialisation."**

This has been a transformational year for the Group, receiving approval for its first product, Alkindi®, in Europe, successfully launching Alkindi® in Germany in May 2018 and securing its first commercial sales.

With progress made over the past year, Diurnal believes that it can become one of the few UK biotechnology companies to successfully take multiple products from concept to commercialisation.

In keeping with the Group's strategy set out at IPO, Diurnal believes that developing novel products containing well-characterised active ingredients targeting endocrine conditions with high unmet needs offers a lower risk approach than developing new chemical entities, whilst retaining exclusivity through orphan drug and regulatory routes. Following our achievements in Europe, this approach can now be expanded to other territories worldwide and specifically the initiation of clinical studies in the US following the successful fundraising of £10.5m during the year.

## Late-stage pipeline: challenging diseases of cortisol deficiency

Diurnal's late-stage development pipeline is targeting disorders of the adrenal axis with two novel formulations of hydrocortisone.

Congenital adrenal hyperplasia (CAH) is an orphan condition caused by deficiency of adrenal enzymes, most commonly 21-hydroxylase, which is required to produce 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 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 approximately 47,000 patients in Europe and 17,000 patients in the US, with approximately 400,000 patients in the rest of the world.

Adrenal insufficiency (AI) is a condition characterised by deficiency in cortisol, an essential hormone in regulating metabolism and the response to stress. The primary symptoms of AI are chronic fatigue and patients are at risk of adrenal crisis and death if they do not have adequate cortisol replacement. AI is either primary or secondary, with primary AI resulting from diseases intrinsic to the adrenal gland and secondary AI resulting from pituitary diseases where there is a failure of stimulation of the adrenal gland by the pituitary gland. The condition is estimated to affect approximately 296,000 patients in Europe and 138,000 patients in the US, with approximately 4m patients in the rest of the world.

Paediatric AI (including CAH) has been identified as an orphan disease in the US where there are estimated to be approximately 4,500 sufferers under the age of 16. In Europe there are estimated to be around 10,000 sufferers under the age 18. Untreated, the disease is associated with significant morbidity and increased mortality.

**Alkindi®: first approval and commercial revenues in Europe**
In December 2017, the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) recommended granting a paediatric use marketing authorisation (PUMA) for Alkindi® (hydrocortisone granules in capsules for opening) for the treatment of primary AI. The positive opinion from the CHMP was based on review of data from the Group's pivotal open label Phase III clinical trial conducted in 24 subjects before their sixth birthday, requiring replacement therapy for AI due to CAH, primary adrenal failure or hypopituitarism. The study successfully met its primary endpoint and no serious adverse events were reported. Based on this data, and a comprehensive market authorisation application dossier from Diurnal, the CHMP recommended the product's use to include paediatric patients up to 18 years of age.

## Late-stage pipeline: challenging diseases of cortisol deficiency continued

**Alkindi®: first approval and commercial revenues in Europe continued**
This expansion of Alkindi®'s label, beyond the anticipated label of use in children aged up to six years old, provides Diurnal with a much broader commercial opportunity for Alkindi® in Europe. Subsequently, in February 2018 the CHMP opinion was adopted by the European Commission enabling EU-wide marketing authorisation for Alkindi®.

Following the grant of marketing authorisation, decisions about price and reimbursement will take place at the level of each European Member State. As part of the pan-European commercialisation programme for Alkindi®, Diurnal is currently in discussion with various health authorities to ensure timely launches in all major European countries.

The first of these launches occurred during May 2018 in Germany, with the Alkindi® price being in line with the Group's expectations and published in the LAUER-TAXE® (the reference for all German pharmacies, insurers and wholesalers). Given the concentrated endocrinologist prescribing base, and to retain the full value of the product, Diurnal is commercialising Alkindi® itself in major European markets, focusing its marketing efforts initially on patients aged 0–6 years where the unmet need is highest. Diurnal has established the commercial infrastructure required to support a successful launch of Alkindi® working closely with Ashfield to supplement Diurnal's small, but very experienced in-house commercial team. The Diurnal European-wide team consists of 14 individuals in place in key European territories and fully integrated with Diurnal's in-house team.

Diurnal has now completed implementation of the commercial supply chain with leading global service providers for manufacturing, packaging and distribution that are completely located within the EU.

**Chronocort®: targeting effective disease control in adults**
Chronocort® is a modified-release preparation of hydrocortisone that has been designed to mimic the circadian rhythm of cortisol when given in a twice-a-day "toothbrush" regimen (last thing at night before sleep and first thing in the morning on waking). The first planned indication for Chronocort® is CAH in adults and the clinical data in patients from a successfully completed Phase II trial demonstrated that Chronocort® was able to control CAH (as determined by control of androgens) in 94% of patients after receiving Chronocort® for six months.

Chronocort® is currently in a Phase III trial in Europe, which during the year successfully completed enrolment of 122 patients with CAH across five countries and eleven clinical trial sites. Patients being treated for CAH with combinations of generic steroids (standard of care) were enrolled on the trial and randomised to either Chronocort® on a twice-daily regime or continued their standard-of-care regimen. The primary endpoint of the trial is the control of androgens on the same or lower total daily dose of steroid when treated with Chronocort® when compared to standard-of-care treatment. This primary endpoint is identical to the previously successful Phase II clinical trial for Chronocort®. Secondary and exploratory endpoints include an assessment of body mass index, bone turnover and levels of fatigue. The last patient was dosed after the year end and the initial read-out on the primary endpoint is expected during Q4 2018.

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, is continuing with over 80% of eligible patients rolling over into this trial and, of those patients enrolling, the proportion of patients remaining within the trial has been very high (>90%). This trial is intended to provide further valuable safety data to support the registration and commercialisation of Chronocort®.

**Significant progress defining the regulatory path in the US**
The US remains the second most important market for Diurnal's late-stage pipeline with an estimated 17,000 patients suffering from CAH and an estimated 138,000 sufferers with AI.

During the period, the Group announced that it had entered into an agreement with Worldwide Clinical Trials (Worldwide) to support the US clinical development of Chronocort® in both CAH and AI.

Working with Worldwide, Diurnal will conduct the US Phase III registration trial and follow-on study for Chronocort® for the treatment of CAH. Following recent progress in the Group's discussions with the US Food and Drug Administration (FDA), Diurnal expects to initiate the Phase III study in early Q4 of 2018. The Phase III study will recruit around 150 patients with CAH, who will be randomised to either receive Chronocort® twice daily or standard of care. Patients in the study will be treated for 12 months, with the primary endpoint of the study being the proportion of patients achieving biochemical control with Chronocort® or standard of care. A number of secondary endpoints including weight, body composition, hirsutism, fatigue and quality of life will be used to determine clinical benefit of Chronocort® over standard of care.

In advance of the start of the US Phase III pivotal trial, Diurnal completed a bioavailability study post period, which demonstrated that subjects dosed with Chronocort® had comparable exposure to hydrocortisone when compared to subjects dosed with immediate-release hydrocortisone. This bioavailability study will form part of the regulatory package to support the registration of Chronocort® for CAH in the US.

In addition, Diurnal is seeking to pave the way for future indication expansion opportunities with Chronocort® through the initiation of a Phase II proof-of-concept study in AI patients. Worldwide will also conduct this Phase II study, which is expected to commence around the end of 2018.

For Alkindi®, during the year, Diurnal successfully completed a food matrix compatibility study, which is supportive of the package of data that the Group believes is required by the FDA for successful registration of the product in the US. This study was a single centre, open label, randomised, single dose crossover study in 18 healthy adult subjects. The primary objective of the study was to evaluate the bioavailability of Alkindi® multi-particulate granules administered as sprinkles onto soft food or yoghurt compared with direct administration to the back of the mouth. The results of the study confirm that the pharmacokinetics of Alkindi® when sprinkled onto soft food or yoghurt are equivalent to Alkindi® administered directly. There were no adverse events and Alkindi® was well tolerated.

In addition, a second Alkindi® study assessing bioequivalence to adult doses of hydrocortisone was started and fully enrolled during the period. This bioequivalence study is anticipated to read out during Q4 2018 and, together with the food matrix compatibility study, and Alkindi® European data, will be submitted for review to the FDA around the end of 2018 with a view to submitting an NDA in 2019 with approval anticipated during 2020.

**Endocrine focused early-stage pipeline**
Diurnal aspires to be a significant participant in the endocrinology field with a pipeline of therapies targeting multiple endocrine disorders.

The Group continues the proof-of-concept Phase I/II study with its native oral testosterone product, DITEST™, for the treatment of male hypogonadism. This study is designed to evaluate the pharmacokinetics, safety, tolerability and food effect of DITEST™ in male patients with hypogonadism. The study is expected to complete around the end of 2018.

The Group continues 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).

The Group continues with plans to finalise development of a modified-release T3 (triiodothyronine) for the treatment of hypothyroidism where the needs of up to 25% of patients on existing replacement therapy, T4 (thyroxine), are not being adequately met.

The Group continues to explore other indications that may benefit from Chronocort®, such as inflammatory diseases.

## Delivering on the Group's marketing and distribution strategy

Geographic expansion of Alkindi® and Chronocort® outside the Group's stated core markets is an important element of Diurnal's broader commercialisation strategy and further progress was made in this respect during the year.

**"Diurnal has established the commercial infrastructure required to support a successful launch of Alkindi®."**

In February 2018, a marketing and distribution agreement with Emerge Health, a leading, specialised Australian pharmaceutical company focused on the marketing and sales of niche, high-quality medicines to the hospital sector, was executed for Alkindi® and Chronocort® in Australia and New Zealand. Under the terms of the agreement, Emerge Health will receive the exclusive rights to market and sell Alkindi® and Chronocort® in Australia and New Zealand. Diurnal will provide Emerge Health with product from its established European supply chain. Diurnal anticipates that the market authorisation of Alkindi® in Australia during 2020.

The Group continues to work closely with Medison Pharma Limited, Israel's leading group for the marketing of innovative niche healthcare solutions, with whom Diurnal executed a marketing and distribution agreement with in 2017, with anticipated market authorisation of Alkindi® in Israel during 2020.

Diurnal continues to assess opportunities for similar agreements in selected high-value markets which can utilise existing regulatory data sets.

## Further strengthening of the in-market exclusivity position

Diurnal continues to protect its product candidates through a robust and extensive patent portfolio.

During the year, the Group received notification of grant of the first of its US Chronocort® patents: a composition of matter patent for the product formulation for use as a treatment for conditions such as AI. The Group also received grant of its first Japanese patents for Alkindi® and Chronocort® and, post-period end, a notice of grant in Japan for a second Alkindi® patent. These granted patents provide in-market protection for Alkindi® to 2034 and for Chronocort® until 2033. The Group expects to continue to expand patent coverage for its products in the future.

Diurnal's late-stage products are targeting rare and orphan diseases and, therefore, in addition to the strong and expanding patent portfolio, have the benefit of additional regulatory protection in key markets. In Europe, the EMA offers ten years of exclusivity (eight years' data plus two years' market exclusivity) through a PUMA, which serves as an inducement for pharmaceutical manufacturers to specifically develop therapies for use in the paediatric population. During the year, the grant of the marketing authorisation by the European Commission confirmed that Alkindi® has PUMA status and therefore exclusivity until 2028. Chronocort® already benefits from granted orphan drug designations in Europe for both CAH and AI, meaning that it has the potential to have ten years' market exclusivity post-approval. In the US, the FDA has granted Chronocort® orphan drug designation in the treatment of both CAH and AI and granted Alkindi® orphan drug designation in the treatment of paediatric AI, which affords seven years' market exclusivity post-approval.

## Outlook

The Group is well positioned to build on the approval of its first product Alkindi®, and to become a fast growing, independent, international specialty pharmaceutical company focusing on creating products that address unmet patient needs in endocrinology. Together with its other late-stage product, Chronocort®, Diurnal has the opportunity to build a valuable life-long adrenal franchise, providing critical medicines in underserved diseases of cortisol deficiency, and believes that it is well-positioned to raise the funding required to support these growth plans. With the European Chronocort® trial now completed and on track to read out during Q4 2018, the Group believes that a recommendation for approval could be forthcoming in 2020. Reflecting a combined cortisol deficiency market size of over 400,000 patients in Europe and the US alone, in addition to further opportunities beyond these two territories, the Board believes that the potential for Diurnal is very positive.

**Martin Whitaker**
Chief Executive Officer
19 September 2018

Q&A

## How do you feel Diurnal performed during the 2017/18 financial year?

I am extremely pleased with the progress we made across all aspects of the business. Clearly, the approval of Alkindi® in Europe, the subsequent launch and the generation of our first product revenues was a key milestone for the Group, and the result of very hard work across our team. I was particularly pleased with the progress we have made with our late-stage pipeline in the US, where we now have clear regulatory pathways mapped out. Looking inwards, I am also delighted that we have been able to further strengthen the Diurnal team with a number of key appointments being made during the year.

## How has the Alkindi® launch gone so far?

The launch has been very smooth and in line with our expectations, despite the complexities of launching a product in Europe – whilst regulatory approval is centralised, pricing is determined on a country-by-country basis and involves an immense amount of preparation behind the scenes. I am also pleased that our robust supply chain has performed well and that we have been able to make product available on a timely basis.

## What are your plans for commercialisation of Alkindi® and Chronocort® outside of Europe?

For the US, our current plan is to seek a partner, to ensure that we get timely access to the market, which is much more diffuse than in Europe. The recent fundraising has enabled us to commence the US Phase III study with Chronocort®, in order to maintain momentum in the programme and maximise the value of the product. During the next financial year, we intend to formulate our regulatory plan for Japan, which is the largest market outside the US and Europe. Elsewhere, we will seek distribution deals in those markets that are able to support innovative new products and where the European regulatory dossier can be used for the local registration.

## How are you maximising the potential of your late-stage pipeline?

As a small company, we are mindful of not spreading our resource too thinly. We are putting in plans for indication expansion for Chronocort®: for example, we expect to commence a Phase II study in adrenal insufficient during the next financial year, a market which is almost ten times the size of the opportunity in congenital adrenal hyperplasia. We are also continuing to assess new indications for Chronocort®, such as inflammatory diseases.

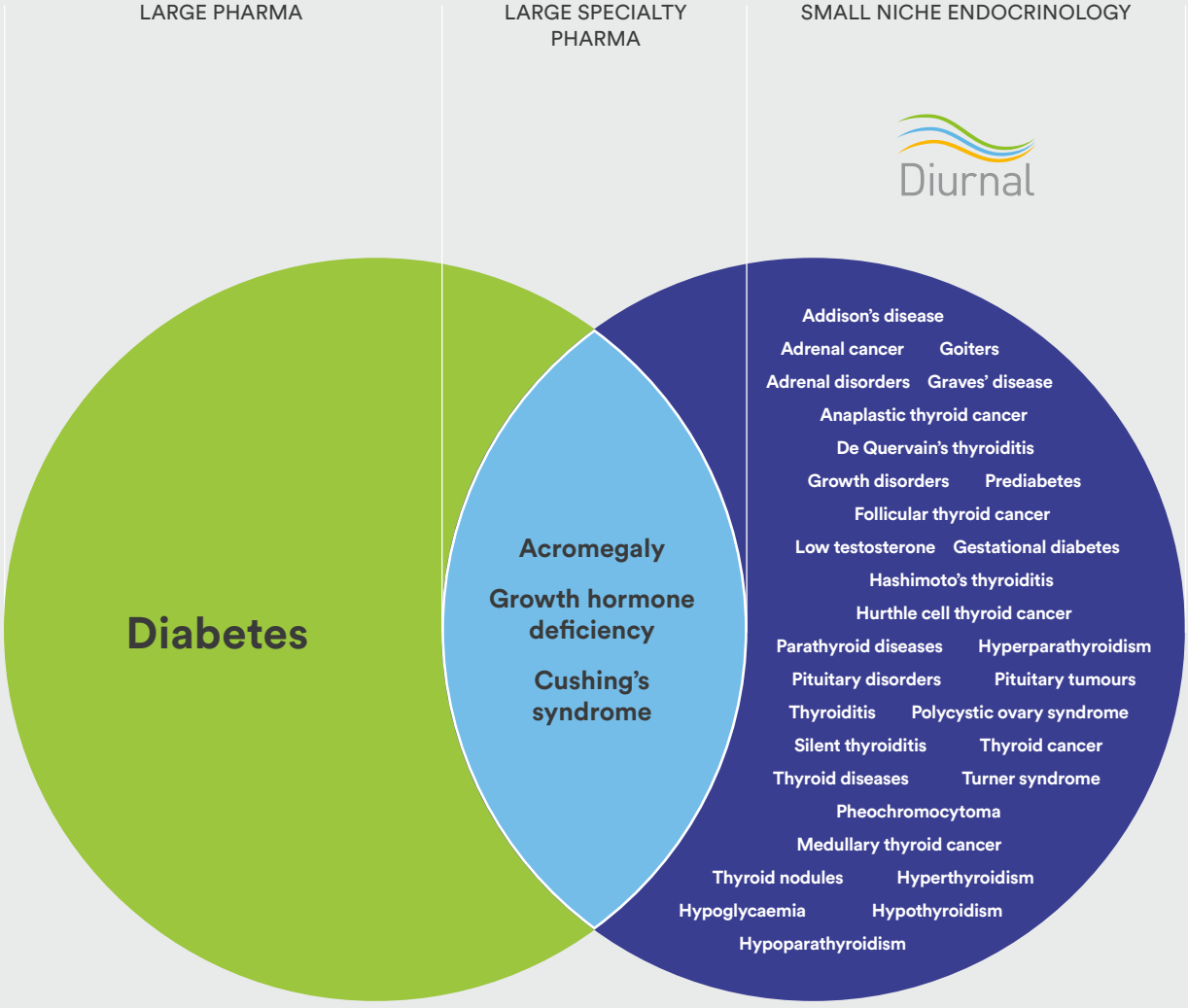
## How is your early-stage pipeline progressing?

Diurnal has been focused on its late-stage pipeline during the 2017/18 financial year; however, we have continued to make progress with our siRNA and T3 products with a view to moving these towards clinical trials. We also continue to progress DITEST™ in a Phase I/II trial and expect data around the end of this year. We are also mindful of external opportunities and have an active business development effort, where we have assessed a number of potential new products during the last financial year.

## What key news flow can we expect from Diurnal in the 2018/19 financial year?

In the near term, we expect to announce headline data from the Chronocort® European Phase III trial in early Q4 2018. We will continue to roll out Alkindi® across Europe with a number of country launches during the next financial year. Finally, we expect to complete Alkindi® studies required for the US NDA submission and discuss these with the FDA around the end of 2018. We certainly see a very busy year ahead and expect to be able to report significant progress next year.

# Focused on developing a commercial franchise in **niche areas of unmet patient need**




Diurnal is focused on the development and commercialisation of high-quality products for chronic endocrine (hormonal) diseases where there is either no licensed medicine or where patient needs are underserved. Diurnal regularly interacts with endocrinologists to identify these key patient needs, in diseases which are typically too small to interest larger pharmaceutical or specialty pharma companies.

# How we address the market

## Focus on rare and orphan diseases

Diurnal concentrates its efforts on underserved patient groups with high unmet medical need.

## Leverage of drug delivery expertise

Development of novel presentations to produce high-quality products addressing specific needs of each condition.

## Identification of key patient needs

Extensive consultation with physicians, patient groups and payers to ensure key needs are met.

## Building robust in-market protection

Utilisation of regulatory protection and strong intellectual property to maintain a strong competitive position.

### Goals of our 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 64,000 patients across Europe (47,000) and the US (17,000), with approximately 400,000 in the rest of the world. The European and US markets are estimated to be worth a combined $0.5bn annually.

## $0.5bn

The European and US markets are estimated to be worth a combined $0.5bn 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 gland.
+ In primary AI the most common condition is Addison's disease, typically due to autoimmune 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 $2.8bn annually.

**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 ageing 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 and is estimated to be worth $5.2bn.
+ There is some controversy over the risks and benefits in replacing testosterone in older men (including the potential for cardiovascular disease).

**$5.2bn**

Estimated value of hypogonadism market.

## Hypothyroidism

+ Hypothyroidism, caused by abnormal levels of thyroxine (T4) and triiodothyronine (T3) in the bloodstream.
+ 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.

## 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.

# 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

## Diurnal employees

+ 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.

### Development

+ Regulatory
+ Clinical operations
+ Pharmacovigilance
+ Medical monitoring
+ Statistics

### Manufacturing

+ Formulation
+ Clinical supplies
+ Analytical services
+ Scale up
+ Validation

## Our strengths

**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.

**Patents**
Diurnal has filed patents in relation to its novel product pipeline, of which a number are granted. Key patents have already been granted in the US and Japan relating to the Alkindi® and Chronocort® formulations and are being progressed in Europe. These patents will provide robust in-market protection for Alkindi® and Chronocort® in key geographic markets.

Diurnal has built a strong business model bringing together key management, selected consultants and expert contractors, operating seamlessly on a global basis.

## Consultants and contractors

+ 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.

## Commercial

+ Market access
+ Medical liaison
+ Sales
+ Pharmacovigilance
+ Supply chain

**Research and development**
Diurnal has a deep understanding of drug delivery technologies and is focused on selecting the best technology for each product.

**Strong product portfolio**
Diurnal's late-stage portfolio is underpinned by novel early-stage approaches. 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.

# Our strategy moving forward

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

+ Complete Phase III trials for Chronocort® in Europe and Alkindi® and Chronocort® in the US.
+ Successfully commercialise Alkindi® in key European markets.
+ Expand the Group's commercial capability with Chronocort® in Europe.
+ Enter into strategic collaboration for Alkindi® and Chronocort® in the US.
+ Maximise revenues in rest of world through local distribution agreements.
+ Raise further funding, through the issue of new equity and strategic collaborations, to support the Group's strategy.

**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.

# Supporting the transition of the business

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

## Revenues

The Group achieved a significant milestone during the year, with the recording of its first commercial revenues, following the launch of Alkindi® in Germany in May 2018. Total revenues recorded for the year were £73k (2017: £nil), which is net of provisions for stock placed into the wholesale distribution chain on a sale-or-return basis.

## Operating income and expenses

Operating expenses are in a growth phase, reflecting the investment in headcount and business infrastructure to support the transition of the business to a fully integrated specialty pharma organisation with commercialisation capabilities in Europe, alongside increased investment in developing the late-stage clinical pipeline. 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 £10.0m (2017: £8.3m). Expenditure on product development and clinical costs increased during the year as the Group progressed towards completion of recruitment for the Chronocort® Phase III registration trial in Europe and transitioned patients completing this study into the long-term follow-on study, as well as commencing studies to support both the Alkindi® and Chronocort® US Phase III programmes and planning activities for the commencement of a Phase II trial for Chronocort® in AI, to be conducted in the US, around the end of 2018.

As previously highlighted in the Interim Report for the six months ended 31 December 2017, the approval of the Alkindi® paediatric use marketing authorisation (PUMA) in February 2018 was the trigger for the Group to commence capitalisation of development costs for Alkindi® in Europe under IAS 38.

Costs capitalised during the year amounted to £15k, which are recorded as an intangible asset on the balance sheet and will be amortised over the duration of the regulatory protection afforded by the PUMA until February 2028. The Group will continue to expense development costs relating to the separate development programme for Alkindi® in the US.

Administrative expenses for the year were £6.8m (2017: £3.7m), reflecting a substantial increase in infrastructure and pre-commercialisation expenses in preparation for the first commercial launch of Alkindi®, which was achieved as expected in May 2018. The Alkindi® launch is underpinned by the Group's arrangements with Ashfield, who provide contract staff on a fee-for-service basis. The increased costs reflect the team of medical scientific liaisons (MSLs), key account managers (KAMs) and support staff engaged by Ashfield, with 14 individuals in place at the end of the financial year, along with health economic and market access activities to support pricing discussions with healthcare payers.

## Operating loss

Operating loss for the year increased to £16.8m (2017: £12.1m), reflecting the increased operating expenses outlined above.

## Financial income and expense

Financial income in the year was £95k (2017: £182k), due to lower average cash balances compared to the previous year. The Group successfully completed a follow-on offering in April 2018, raising £10.5m before expenses; however, these funds only had an impact for the last three months of the year.

Financial expense for the year was £221k (2017: £272k), being the non-cash financial expense of the convertible loan. As part of the recent fundraising, IP Group exercised its option to convert the loan into equity

at the IPO price of 144 pence per share. The financial expense for the year represents the accrual of 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 up to the date of conversion of the loan.

## Loss on ordinary activities before tax

Loss before tax for the period was £16.9m (2017: £12.2m).

## Tax

The current year includes the estimated research and development tax credit claim in respect of the year ended 30 June 2018 of £2,275k, which has not yet been submitted to HMRC, along with an additional £7k in respect of the year ended 30 June 2017, following finalisation and agreement of the claim. The prior year includes the cash received in respect of the R&D tax credit claim for the year ended 30 June 2016 of £911k, which was received in August 2017, along with the R&D tax credit claim for the year ended 30 June 2017 of £1,819k, which was received in May 2018. The Group has not recognised any deferred tax assets in respect of trading losses arising in either the current financial year or accumulated losses in previous financial years.

## Earnings per share

Loss per share was 26.8 pence (2017: 18.0 pence).

## Cash flow

Net cash used in operating activities was £12.8m (2017: £10.5m), driven by the planned increase in commercial infrastructure, pre-commercialisation activities and development of the late-stage clinical pipeline during the year. Net cash flows from operating activities include an exchange gain of £228k arising from holding a proportion of its cash balances in US dollars in order to provide budgeting certainty for the future costs of its Chronocort® US development activities.

Net cash from investing activities was £11.1m (2017: net cash used in investing activities £3.2m), reflecting the movement of all longer-dated held to maturity financial assets to short-dated cash and cash equivalents. This reflects the change in the Group's treasury arrangements during the year: all its cash deposits are now immediately accessible and, consequently, are classified as cash and cash equivalents.

Net cash generated by financing during the prior period of £9.9m reflects the net proceeds of the placing completed in April 2018.

## Balance sheet

Total assets decreased to £22.5m (2017: £23.9m), largely reflecting the utilisation of cash in operating activities highlighted above, partly offset by the follow-on financing completed in April 2018.

Following the approval of the Alkindi® PUMA in February 2018, the Group is now recognising stocks of raw materials, components, work in progress and finished goods relating to its commercial supplies of Alkindi® on the balance sheet, including certain costs which had previously been expensed. Total stock at the year end was £123k (2017: £nil).

Cash and cash equivalents were £17.3m (2017: £8.9m) and held to maturity financial assets were £nil (2017: £11.0m), reflecting the change in treasury arrangements noted above. Total liabilities decreased to £5.7m (2017: £6.9m), reflecting an increase in trade payables and accruals at the year end associated with the increased level of operating activities, offset by the early retirement of the convertible loan noted above. Net assets were £16.9m (2017: £17.1m).

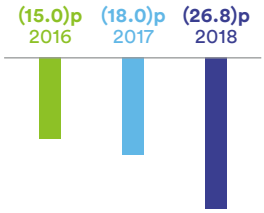
## Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the Strategic Report on page 18.

**Richard Bungay**
Chief Financial Officer
19 September 2018

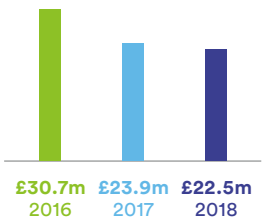
**Loss per share (p)**

(26.8)p



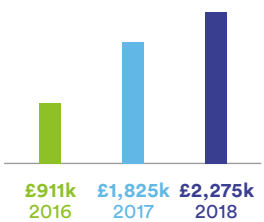

**Total assets (£m)**

£22.5m




**Tax credit (£k)[1]**

£2,275k




1 Tax credit due in respect of financial year.

# 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 management framework

**Strategic governance**

**Board**

Audit Committee

Remuneration Committee

Nomination Committee

| Operational and financial governance | First line of defence | Second line of defence | Third line of defence |
|---|---|---|---|
| Senior management team | Operational management, including functional and project review meetings | Central support functions, including Group policies and procedures | External advisers |

| Risk description | Key mitigation | Change |
|---|---|---|
| **Approval of products** | The Group will utilise its experience from the successful registration of Alkindi® in Europe for the planned regulatory submissions for Alkindi® in the US and Chronocort® in Europe, including the use of 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 work, careful selection of contract research organisations (CROs) 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 Alkindi® 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. |
| **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. |

| Risk description | Key mitigation | Change |
|---|---|---|
| **Disruption of product supply** | The Group currently has a single source of supply for both Alkindi® 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. The Group also maintains business interruption insurance to cover increased costs of working arising from losses of product. |  |
| **Failure to protect products** | Notification of grant has been received previously for three Composition of Matter patents for Alkindi® and two for Chronocort® in the US and during the financial year notification of grant was received for key patents for Alkindi® and Chronocort® in Japan. The Group continues to prosecute patents for both Alkindi® and Chronocort® globally. The Group has also granted orphan drug designation for both Infacort® and Chronocort® in the US and Europe. |  |
| **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. Future trading arrangements between the UK and EU could disrupt product supply, impacting future sales of Alkindi® in the UK, or lead to increased costs resulting from duties. The Group is assessing ways of mitigating potential disruption for shipping goods into the UK following its departure from the EU in March 2019. |  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 redundancies and disaster prevention and recovery strategies. |  |
| **Availability of finance** | The Group will require significant further funds in order to reach profitability. The Group successfully completed a £10.5m fundraising during the financial year and continues to manage its existing cash resources carefully, ending the 2017/18 financial year with £17.3m. The Group meets regularly with new and existing investors to ensure the equity story is well understood. However, there can be no guarantee that the Group can raise sufficient funding to continue operations as currently envisaged. |  |
| **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 an HR adviser to benchmark packages against the biotechnology sector and make recommendations to the Remuneration Committee. |  |

# Robust product protection in **key markets**

| | | Alkindi® | Chronocort® |
|---|---|---|---|
| **Regulatory exclusivity[4]** | EU | **PUMA**<br>Ten years | Orphan<br>Ten years |
| | US | **Orphan**<br>Seven years | Orphan<br>Seven years |
| **Intellectual property** | European patent | **Composition of matter**<br>Under review[1]<br>**Medical use**<br>Under review[2] | Composition of matter<br>2033<br>Method of treatment<br>2033 |
| | US | **Composition of matter**<br>2034<br>**Method of treatment**<br>2032 and 2034 | Composition of matter and medical use<br>Under review[3] |

1. Granted GB patent number: 2527233.
2. Granted GB patent number: 2509663.
3. Granted GB patent numbers: 2502402 and 2510754.
4. Conditional and subject to grant of market authorisation.

Diurnal's late-stage product candidates are afforded strong in-market protection through a combination of regulatory protection (paediatric use marketing authorisation; orphan disease designation) and internally generated intellectual property. Diurnal's intellectual property portfolio was further broadened during the year with the grant of key Alkindi® and Chronocort® patents in Japan, a key market.

# 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, Chairman of Proximagen Group Plc (now Proximagen Group Limited) and Chairman of Future plc. 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 Abcam plc, Advanced Medical Solutions plc, Clinigen plc and Oxford Nanopore Technologies Ltd; Non-Executive Director of Istesso Ltd.

## Martin Whitaker, BSc PhD

**Chief Executive Officer**

**Appointed**
22 August 2012[1]

**Skills and experience**
Martin has 20 years' experience in the pharmaceutical industry and has led the Diurnal team to progress the Company's lead products Alkindi® to approval in Europe and Chronocort® into pivotal Phase III clinical trials. Previously, Martin worked for Fusion IP plc (now IP Group 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 is also a Director of D3 Pharma Ltd, which successfully commercialised Plenachol®, a high dose Vitamin D product prescribed in the UK. 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, most 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 of Sheffield 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 the Growth Hormone Research Society.

## 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 Intas Pharmaceuticals Limited.

## Alan Raymond, BSc PhD

**Non-Executive Director Board representative of Development Bank of Wales (formerly 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, the 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 ADC Biotechnology Ltd.

## 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. From 2002 to 2007 he worked at Lehman Brothers where he was ranked the number one European biotechnology equity analyst by Institutional Investor magazine three years in a row. Sam left Lehman Brothers in 2007 to establish Modern Biosciences Ltd (now Istesso Ltd), a drug discovery company focused on novel treatments for autoimmune and inflammatory conditions. As well as being CEO of Istesso, Sam is Head of Life Sciences at the FTSE 250 company IP Group plc, overseeing the biotechnology portfolio. Sam has a PhD from Cambridge University and an MA in Pure and Applied Biology from Oxford University.

**Other roles**
Executive Chairman of Istesso Ltd and Non-Executive Chairman of Microbiotica Ltd and Glythera Ltd.

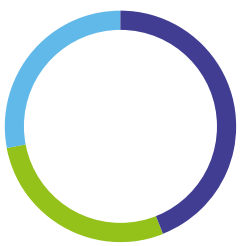
1. Appointed initially as a Director of Diurnal Limited; upon creation of the parent company immediately prior to its IPO in December 2015, appointed to the Board of Diurnal Group plc on 1 December 2015.

# Corporate governance introduction

## Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended 30 June 2018. 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 2018.

## Board membership



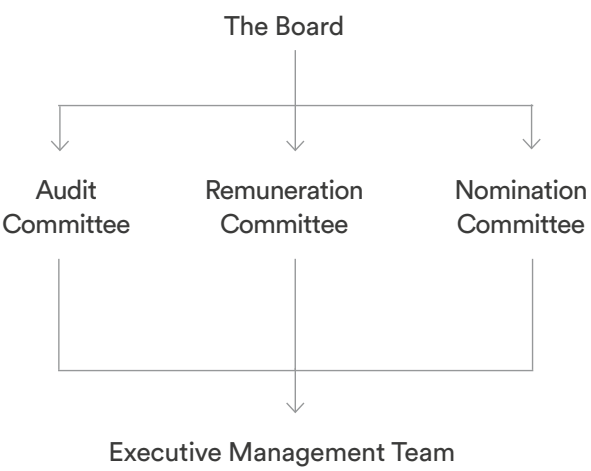
- Executive Director
- Non-Executive Director
- Independent Non-Executive Director

## 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, an Independent 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 2018**
+ John Goddard (Chairman)
+ Peter Allen
+ Alan Raymond

**Meetings held in 2018**
3

## 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 team.

**Membership at 30 June 2018**
+ Peter Allen (Chairman)
+ John Goddard
+ Alan Raymond
+ Sam Williams

**Meetings held in 2018**
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 2018**
+ Alan Raymond (Chairman)
+ John Goddard
+ Peter Allen
+ Sam Williams

**Meetings held in 2018**
2

## Adoption of the QCA Code

Recent changes in the AIM Listing Rules now require companies to formally adopt a corporate governance code. Diurnal considers that the QCA Corporate Governance Code (the "QCA Code") is the most suitable framework for smaller listed companies and, consequently, formally adopted the QCA Code during the financial year, having informally followed its principles since its IPO in December 2015.

The table below shows how the Group addresses the ten principles underpinning the QCA Code:

**Deliver growth**

1. **Establish a strategy and business model which promote long-term value for shareholders**
   See "Business model and strategy" on page 14
2. **Seek to understand and meet shareholder needs and expectations**
   See the "Corporate governance" section of our website, www.diurnal.co.uk
3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**
   See the "Corporate governance" section of website, www.diurnal.co.uk
4. **Embed effective risk management, considering both opportunities and threats, throughout the organisation**
   See "Principal risks and uncertainties" on page 18

**Maintain a dynamic management framework**

5. **Maintain the Board as a well-functioning, balanced team led by the Chair**
   See this section
6. **Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**
   See this section and "Board of Directors" on page 22
7. **Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**
   See this section
8. **Promote a corporate culture that is based on ethical values and behaviours**
   See this section and the "Corporate governance" section of our website www.diurnal.co.uk
9. **Maintain governance structures and processes that are fit for purpose and support good decision making by the Board**
   See the "Corporate governance" section of our website www.diurnal.co.uk

**Build trust**

10. **Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**
    See this section and the "Corporate governance" section of our website, www.diurnal.co.uk

The Board considers that it is fully compliant with all the principles of the QCA Code.

## The Board

The Board comprises seven Directors: three Executive Directors and four Non-Executive Directors, each bringing a different experience and background, as detailed on pages 22 and 23. Two of the Directors are considered by the Board to be independent: Peter Allen (Chairman) and John Goddard. As documented at the time of the Company's IPO in December 2015, Peter Allen and John Goddard participate in the Company's historic market value share option scheme; however, these interests are not considered by the Board to be significant and hence are not considered to compromise independence. Similarly, in light of the stage of development of the Group, the Board considers that the Chairman is able to operate with independence. 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. The Chairman is responsible for ensuring that the Board as a whole contains the necessary mix of experience, skills, personal qualities and capabilities to deliver the Group's strategy; in particular, experience of developing and obtaining regulatory approval for novel medicines; the effective launch and marketing of pharmaceutical products; financing and investor relations in a listed company environment; and maintaining effective risk management and control processes to support a rapidly growing business.

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-to-day management of the Group. The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors, and ensures that 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. Non-Executive Directors are required to devote sufficient time and attention to fulfilling their Board duties. 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 the structure, size and 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 and training are given to the Board on developments in governance and regulations as appropriate, including presentations from the Company's Nomad and legal advisers. The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs 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. The Chairman and Non-Executive Directors maintain their skill sets through a portfolio of positions they hold in other organisations within the pharmaceutical and biotechnology sector.

At each Annual General Meeting (AGM) of the Company, any Director who was not elected or re-elected at either of the two preceding AGMs shall retire from office and be eligible for re-election. 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 2017/18 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 | 7 | 6 | — | — | — | — | — | — |
| Richard Ross | 7 | 7 | — | — | — | — | — | — |
| **Non-Executive** | | | | | | | | |
| Peter Allen | 7 | 7 | 3 | 3 | 2 | 2 | 1 | 1 |
| John Goddard | 7 | 7 | 3 | 3 | 2 | 2 | 1 | 1 |
| Alan Raymond | 7 | 7 | 3 | 3 | 2 | 2 | 1 | 1 |
| Sam Williams | 7 | 7 | 2 | 2 | 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. Since the previous Annual Report, the Board has completed an effectiveness evaluation tool and has reviewed the results at a Board meeting. The evaluation did not identify any significant deficiencies in the Board's performance, nor any changes required as a result of the evaluation. 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 three members, who are all Non-Executive Directors: John Goddard (Chairman), Peter Allen and Alan Raymond. Sam Williams stood down from the Audit Committee during the financial year. 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 auditor 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 the external auditor and advising on the appointment of an external auditor. 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 ensures 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.

## Board Committees continued

**Audit Committee including the Audit Committee Report continued**

The Audit Committee met three times during 2017/18, to review:

+ the audit strategy and plan for the 2016/17 full year results;
+ the 2016/17 final results prior to their submission for approval to the full Board;
+ the 2017/18 interim results prior to their submission for approval to the full Board; and
+ the audit strategy and plan for the 2017/18 full year results.

During the year the Committee considered the appropriateness of accounting policies, including capitalisation of development costs, revenue recognition, accounting for share-based payments, preparation of the financial statements on a going concern basis and the convertible loan.

Any non-audit services that are to be provided by the external auditor 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. 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 30 to 33.

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 page 18 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 auditor provides 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 and corporate culture

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.

The corporate culture of the Group is established through the annual setting of corporate objectives by the Board, which flow through the organisation by the setting of departmental and individual objectives. These objectives are reviewed by the senior management team for consistency with the overarching corporate goals. The Board regularly receives updates on the organisational development and discusses behaviours of the wider team.

## 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 (AGM) as opportunities to engage with its private investors in addition to its institutional investors. The Board believes that the AGM offers an excellent opportunity to communicate directly with shareholders. This year's AGM will be held on 14 November 2018 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. The Group reports the results of resolutions proposed to the AGM including, if applicable, commentary on any significant voting against particular resolutions.

## 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.

Further details on the Group's corporate governance can be found on the "Corporate governance" section of the Group's website, www.diurnal.co.uk.

On behalf of the Board

**Peter Allen**
Chairman
19 September 2018

## 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 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 base salary, a performance-related bonus and 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.

**Base 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 base salary levels of the Executive Directors were currently positioned below mid-market levels. Reflecting the Group's progress during the financial year into the commercialisation phase, base salaries have been increased to a mid-market position for comparable companies. Accordingly, with effect from 1 July 2018 the base salary of Martin Whitaker, Chief Executive Officer, was increased to £250,000 and the base salary of Richard Bungay, Chief Financial Officer, was increased to £200,000.

**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 value 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 base salary for the Chief Executive Officer and 75% of base salary for the Chief Financial Officer.

The performance criteria for the 2017/18 financial year included clinical (lead programmes and pipeline), commercial and financial milestones and have plan and stretch components. The Remuneration Committee has determined that a bonus of 66% of the maximum potential bonus should be paid in respect of the 2017/18 financial year, reflecting the achievement of a majority of the objectives. The performance criteria for the 2018/19 financial year include clinical (lead programmes and pipeline), commercial and financial milestones and have plan and stretch components.

**Long Term Incentive Plan (LTIP)**
The primary long-term incentive arrangement for Executive Directors, senior managers and all eligible staff are "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 Group's full year results. Such performance share awards under the LTIP will ordinarily 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 the performance conditions specified for the awards are satisfied.

Performance share awards are currently set at a value of 100% of base salary for the Chief Executive Officer. Reflecting benchmarking data for comparable companies, the award for the Chief Financial Officer will be increased for the 2017/18 financial year from 75% of salary to 100% of base salary. The awards are adjusted as necessary to neutralise the cost of exercise where the awards are structured as nominal value cost options.

Performance awards to Executive Directors under the LTIP were made following the announcement of the Group's annual results for the financial years ending 30 June 2017 and 30 June 2016 up to such level and are detailed in the table below. Selected senior managers and, at the Remuneration Committee's discretion, other employees will also participate in the performance share award element of the LTIP.

In order to more efficiently deliver the deferred share awards and performance share awards, the Group intends to implement an employee benefit trust (EBT). Reflecting this, it is intended that share awards will be issued as nil cost options, with the underlying shares delivered to the participating employee through the EBT.

**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 due to personal taxation, 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.

## Policies and guidelines

Recovery and withholding provisions may be operated at the discretion of the Remuneration Committee in respect of awards granted under the performance-related 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 to encourage Executive Directors to build or maintain a shareholding in the Company equivalent in value to at least 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 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 (AGM) of the Company, any Director who was not elected or re-elected at either of the two preceding AGMs shall retire from office and be eligible for re-election. Directors appointed during any year are subject to re-election at the next AGM after taking office.

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%.

## Directors' remuneration

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

| Name | Basic salary and fees £000 | Bonus £000 | Benefits £000 | Total[6] emoluments 2017/18 £000 | Pension contributions 2017/18 £000 | Total emoluments 2016/17 £000 | Pension contributions 2016/17 £000 |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| Martin Whitaker | 200 | 132 | 1 | 333 | 20 | 171 | 23 |
| Richard Bungay[1] | 170 | 84 | 2 | 256 | 17 | 74 | 7 |
| Ian Ardill[2] | — | — | — | — | — | 132 | 7 |
| Richard Ross[3] | — | 35 | — | 35 | — | — | — |
| **Non-Executive** | | | | | | | |
| Peter Allen | 50 | — | — | 50 | — | 50 | — |
| John Goddard[4] | 15 | — | — | 15 | — | 15 | — |
| Alan Raymond | 29 | — | — | 29 | — | 29 | — |
| Sam Williams[5] | 29 | — | — | 29 | — | 29 | — |
| | 493 | 251 | 3 | 747 | 37 | 500 | 37 |

1. Appointed 16 January 2017.
2. Resigned 12 January 2017.
3. Employed by the University of Sheffield and no base salary or fees 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 2017/18 include the bonus payable in relation to the 2017/18 financial year, of which 50% was settled in cash and 50% in deferred share awards after the end of the financial year. The share-based payment charge has been treated as if the deferred share awards were issued at the start of the financial year to which the bonus relates. The deferred bonus awards, made in July 2018, are nil cost options and were as follows: Martin Whitaker: 35,580 shares; Richard Bungay: 22,682 shares; Richard Ross: 9,381 shares.

## Directors' share options and awards

Directors holding office at 30 June 2018 had the following options outstanding over ordinary shares:

| Date of grant/award | Exercise price | At 1 July 2017 | Granted in the year | Exercised | Lapsed | At 30 June 2018 | Latest vesting date |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| Martin Whitaker | | | | | | | |
| 1 July 2008 option grant[1] | £0.002 | 44,500 | — | — | — | 44,500 | Vested |
| 1 December 2008 option grant[1] | £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) | — | — | n/a |
| 8 November 2016 Performance share award | £0.05 | 133,333 | — | — | — | 133,333 | 8 November 2021 |
| 17 October 2017 Performance share award | £0.05 | — | 148,698 | — | — | 148,698 | 17 October 2022 |
| | | 1,122,398 | 148,698 | (69,565) | — | 1,201,531 | |
| Richard Bungay | | | | | | | |
| 8 May 2017 Performance share award | £0.05 | 404,762 | — | — | — | 404,762 | 8 November 2021 |
| 17 October 2017 Performance share award | £0.05 | — | 94,795 | — | — | 94,795 | 17 October 2022 |
| | | 404,762 | 94,795 | — | — | 499,557 | |

| Date of grant/award | Exercise price | At 1 July 2017 | Granted in the year | Exercised | Lapsed | At 30 June 2018 | Latest vesting date |
|---|---|---|---|---|---|---|---|
| **Executive continued** | | | | | | | |
| Richard Ross | | | | | | | |
| 1 July 2008 option grant[1] | £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 | |
| **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[2] | £0.05 | 32,374 | — | (21,582) | — | 10,792 | 24 December 2018 |
| | | 32,374 | — | (21,582) | — | 10,792 | |

1. The Remuneration Committee has extended the option life of the share awards made to Martin Whitaker on 1 July 2008 and 1 December 2008 and the share award made to Richard Ross on 1 July 2008 by two years (i.e. to a total of 12 years).

2. The share awards made to John Goddard are exercisable as follows: 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.

The aggregate amount of gains made by Directors on the exercise of share options during the year was £117,661 (year ended 30 June 2017: nil).

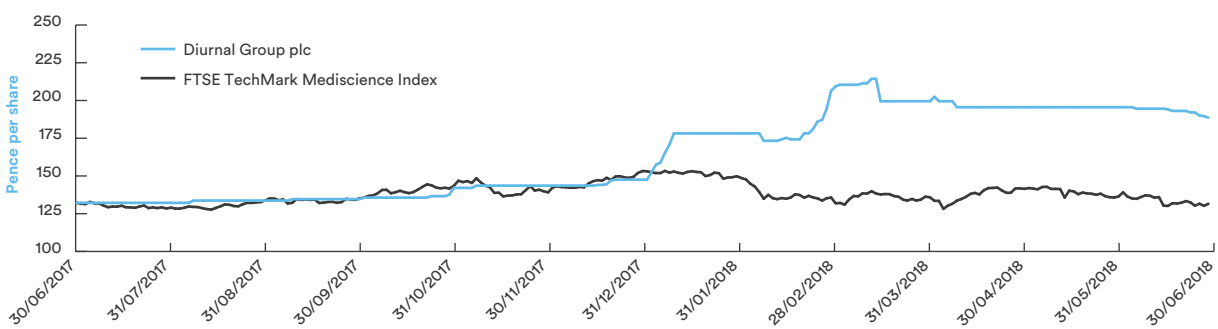
All share options have a ten year life at the date of issue.

Directors' interests in the share capital of the Company as at the date of this report are shown in the Directors' Report on page 35.

The shares trade on the AIM market of the London Stock Exchange under the ticker "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 2018 the market price of the Company's shares was 188 pence per share and the market capitalisation was approximately £115.3m.

The Board considers that the FTSE TechMark Mediscience Index is an appropriate benchmark for the performance of its shares and a comparison is set out below for the year ended 30 June 2018. This chart highlights that Diurnal's share price outperformed the FTSE TechMark Mediscience Index by 44%.




On behalf of the Board

**Alan Raymond**
Remuneration Committee Chairman
19 September 2018

## Introduction

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 2018.

## 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 are 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

For the year ended 30 June 2018, the Group made an operating loss of £16.8m on revenue of £0.07m, with the gross profit being £0.05m, and used net cash in operating activities of £12.8m. Cash and cash equivalents at 30 June 2018 were £17.3m.

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. Under current business plans the Group's cash resources will extend to Q2 2019. Based on this, additional equity funding is expected to be required by the end of Q1 2019. In addition, further funding may be required in the medium term to support the Group in reaching sustainable profitability. The level of additional funds required (if any) will be dependent upon the amount of funds raised in Q1 2019, the Group's performance against forecasts, and the level of income generated from licensing activities, which itself is dependent upon the forthcoming result from the Phase III trial of Chronocort® in Europe.

The Group completed a £10.5m fundraising with existing and new investors in April 2018. The Directors have a reasonable expectation that the Group will be able to raise further equity financing to support its ongoing development and commercialisation activities. The funding environment is expected to be more challenging in the event that the result of the Phase III trial of Chronocort® in Europe is not positive. However, the Directors also have a reasonable expectation that the Group will be able to generate significant funding through entering into strategic collaborations for the development and commercialisation of Alkindi® in the event that the result of the Phase III trial of Chronocort® in Europe is not positive.

However, there can be no guarantee that the result of the Phase III trial of Chronocort® in Europe will be positive, that the Group will be able to raise sufficient funding from existing and new investors, nor that the Group will be able to secure strategic collaborations for its late-stage pipeline. In the event that the additional funding required in Q1 2019 is delayed, the Directors consider that the Group would be able to reduce expenditure on its development programmes, and also accelerate licensing arrangements for Alkindi® and, subject to its Phase III trial results, Chronocort®, in order to continue funding its operations until additional financing is secured.

Based on the above factors the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the above factors give rise to a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## Results and dividends

The Group recorded a loss for the year before taxation of £16.9m (2017: £12.2m). 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 £10.0m (2017: £8.3m) in the continuing development of its product portfolio. Of this cost, £15k was capitalised and the remainder was expensed in the consolidated income statement, 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.

## 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:

| | 19 September 2018 | |
|---|---|---|
| Name | Ordinary shares of £0.05 each in Diurnal Group plc | % of issued share capital |
| **Executive** | | |
| Martin Whitaker | 50,729 | 0.08 |
| Richard Bungay | 2,222 | 0.00 |
| Richard Ross | 1,555,425 | 2.54 |
| **Non-Executive** | | |
| Peter Allen | 84,722 | 0.14 |
| John Goddard | 43,201 | 0.07 |
| Alan Raymond[1] | 28,888 | 0.05 |
| Sam Williams[2,3] | 52,248 | 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's 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's holding is 27,037,675 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 £3k (2017: £nil). 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 8 October September 2018 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 | 27,037,675 | 43.6 |
| Development Bank of Wales plc | 11,534,888 | 18.8 |
| Invesco Limited | 7,165,589 | 11.7 |
| Oceanwood Capital Management LLP | 4,376,833 | 7.1 |
| Polar Capital | 2,105,263 | 3.4 |

## Statement of Directors regarding disclosure of information to the auditor

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 auditor is 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 auditor is 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 have expressed their willingness to continue in office as auditor and a resolution to reappoint them 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 Street, London EC1A 4HD, on Wednesday 14 November 2018 at 11.00 a.m. Full details of the business to be transacted at the AGM can be found in the Notice of Annual General Meeting on page 65 of this report.

On behalf of the Board

**Richard Bungay**
Company Secretary
19 September 2018

The Directors are responsible for preparing the Annual 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. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they 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 judgements and estimates that are reasonable, relevant and reliable;
+ 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 related to going concern; and
+ use 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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the company. The Directors have also decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2018 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 2018 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 Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements which indicates that the Group and the parent Company are dependent on the successful completion of equity financing by the end of Q1 2019. In addition, further funding may be required in the medium term to support the Group in reaching sustainable profitability. These events and conditions, along with the other matters explained in Note 2, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

**The risk**
**Disclosure quality** – Clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure. Auditing standards require such matters to be reported as key audit matters.

**Our response**
Our procedures included:

**Assessing transparency** – We assessed whether the Group's disclosures about going concern adequately disclose the material uncertainties over going concern and the Group's plans to address them.

## 3 Other 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. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2017):

**Completeness of capitalised development costs**
**The risk**
**Accounting treatment** – Project development costs are capitalised if they meet the criteria of relevant accounting standards, which require, among other things, demonstrable future economic benefits, including the existence of a market as well as the technical feasibility of getting products to market. These costs are otherwise expensed as incurred. The Group has launched one product in Europe in the current year with other products 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 and region 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 judgmental 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.

to the members of Diurnal Group plc

## 3 Other key audit matters: our assessment of risks of material misstatement continued

**Completeness of capitalised development costs continued**
**Our response**
Our procedures included:

**Tests of detail** – We tested the costs recognised in relation to the development of products by agreeing to source data.

**Testing application** – We reviewed the status of the 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 by region through inspection of market announcements and correspondence with authorities and inquiry with commercial teams, and made an assessment of how the status of each project compared to the capitalisation criteria set out in IAS 38.

**Inspection of reports** – We corroborated the status of the 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)**
**The risk**
**Low risk, high value** – The parent Company balance sheet includes an investment in the trading subsidiary of £15.4m (2017: £15.4m) and a receivable from that subsidiary of £24.2m (2017: £10.9m). The subsidiary currently has minimal revenues of £73,000 (2017: £nil) and is loss making and therefore the Company's assessment of potential impairment is based on third party specialist valuations of the products being developed. Given the high level of headroom compared both to the market capitalisation of the Group and the external valuations, the recoverability of the carrying value of these investments is not considered to be at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

**Our response**
Our procedures included:

**Comparing valuations** – We reviewed external third party specialist valuation reports which valued the product that was launched in the year along with two other products 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.

**Comparing valuations** – We reviewed and assessed the market capitalisation of the business throughout the reporting period and post year end period.

## 4 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 £650,000 (2017: £460,000), determined with reference to a benchmark of Group loss before tax, of which it represents 3.9% (2017: 3.8%).

Materiality for the parent company financial statements as a whole was set at £380,000 (2017: £390,000), determined with reference to a benchmark of Company net assets, of which it represents 1.0% (2017: 0.9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £32,500 (2017: £23,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's two (2017: two) reporting components, we subjected two (2017: two) to full scope audits for Group purposes. The components within the scope of our work accounted for 100% (2017: 100%) of: total Group revenue, Group loss before taxation and total Group assets. The work on all of the components (2017: All), including the audit of the parent company, was performed by the Group audit team. 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 £380,000 to £553,000 in each case (2017: £390,000 in each case).

## 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;
+ the parent Company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns;
+ 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 36, 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
19 September 2018

# Consolidated income statement

for the year ended 30 June 2018

| | Note | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|---|
| Sales | | **73** | — |
| Cost of sales | | **(15)** | — |
| **Gross profit** | | **58** | — |
| Research and development expenditure | | **(10,024)** | (8,340) |
| Administrative expenses | 4 | **(6,813)** | (3,734) |
| Other operating income | | **—** | 9 |
| **Operating loss** | | **(16,779)** | (12,065) |
| Financial income | 6 | **95** | 182 |
| Financial expense | 7 | **(221)** | (272) |
| **Loss before tax** | | **(16,905)** | (12,155) |
| Taxation | 8 | **2,282** | 2,730 |
| **Loss for the year** | | **(14,623)** | (9,425) |
| **Basic and diluted loss per share (pence per share)** | 9 | **(26.8)** | (18.0) |

All activities relate to continuing operations.

# Consolidated statement of comprehensive income

for the year ended 30 June 2018

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| **Loss for the year** | **(14,623)** | (9,425) |

# Consolidated balance sheet

as at 30 June 2018

| | Note | 2018 £000 | 2017 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 10 | **16** | 4 |
| Property, plant and equipment | 11 | **26** | 18 |
| | | **42** | 22 |
| **Current assets** | | | |
| Inventories | 12 | **123** | — |
| Trade and other receivables | 14 | **5,093** | 4,025 |
| Held to maturity financial assets | 15 | **—** | 11,000 |
| Cash and cash equivalents | 16 | **17,284** | 8,881 |
| | | **22,500** | 23,906 |
| **Total assets** | | **22,542** | 23,928 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **(5,661)** | (3,341) |
| | | **(5,661)** | (3,341) |
| **Non-current liabilities** | | | |
| Loans and borrowings | 18 | **—** | (3,511) |
| | | **—** | (3,511) |
| **Total liabilities** | | **(5,661)** | (6,852) |
| **Net assets** | | **16,881** | 17,076 |
| **Equity** | | | |
| Share capital | 19 | **3,067** | 2,616 |
| Share premium | | **37,769** | 23,675 |
| Group reconstruction reserve | | **(2,943)** | (2,943) |
| Other reserve | | **—** | 1,458 |
| Accumulated losses | | **(21,012)** | (7,730) |
| **Total equity** | | **16,881** | 17,076 |

These financial statements were approved by the Board of Directors on 19 September 2018 and were signed on its behalf by:

**Richard Bungay**
Director

Company registered number: 09846650

as at 30 June 2018

| | Note | 2018 £000 | 2017 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 13 | **15,351** | 15,351 |
| Amount owed by subsidiary undertaking | 13 | **24,163** | 10,923 |
| | | **39,514** | 26,274 |
| **Current assets** | | | |
| Trade and other receivables | 14 | **54** | 28 |
| Held to maturity financial assets | 15 | **—** | 11,000 |
| Cash and cash equivalents | 16 | **17,021** | 8,211 |
| | | **17,075** | 19,239 |
| **Total assets** | | **56,589** | 45,513 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **(131)** | (126) |
| | | **(131)** | (126) |
| **Non-current liabilities** | | | |
| Loans and borrowings | 18 | **—** | (3,511) |
| | | **—** | (3,511) |
| **Total liabilities** | | **(131)** | (3,637) |
| **Net assets** | | **56,458** | 41,876 |
| **Equity** | | | |
| Share capital | 19 | **3,067** | 2,616 |
| Share premium | | **37,769** | 23,675 |
| Other reserve | | **—** | 1,458 |
| Retained earnings | | **15,622** | 14,127 |
| **Total equity** | | **56,458** | 41,876 |

These financial statements were approved by the Board of Directors on 19 September 2018 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 2018

| Group | Share capital £000 | Share premium £000 | Group reconstruction reserve £000 | Other reserve £000 | Retained earnings/ (accumulated losses) £000 | Total £000 |
|---|---|---|---|---|---|---|
| **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 |
| Loss for the year and total comprehensive loss for the year | — | — | — | — | (14,623) | (14,623) |
| Equity settled share-based payment transactions | — | — | — | — | 808 | 808 |
| Issue of shares for cash | 289 | 10,235 | — | — | (4) | 10,520 |
| Costs charged against share premium | — | (630) | — | — | — | (630) |
| Issue of share capital on conversion of loan | 162 | 4,489 | — | (921) | — | 3,730 |
| Equity component of convertible loan | — | — | — | (537) | 537 | — |
| Total transactions with owners recorded directly in equity | 451 | 14,094 | — | (1,458) | 1,341 | 14,428 |
| **Balance at 30 June 2018** | **3,067** | **37,769** | **(2,943)** | **—** | **(21,012)** | **16,881** |

| Company | Share capital £000 | Share premium £000 | Other reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| **Balance at 30 June 2016** | 2,610 | 23,632 | 1,458 | 13,455 | 41,155 |
| Loss for the year and total comprehensive loss 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 for the year and total comprehensive profit for the year | — | — | — | 154 | 154 |
| Equity settled share-based payment transactions | — | — | — | 808 | 808 |
| Issue of shares for cash | 289 | 10,235 | — | (4) | 10,520 |
| Costs charged against share premium | — | (630) | — | — | (630) |
| Issue of share capital on conversion of loan | 162 | 4,489 | (921) | — | 3,730 |
| Equity component of convertible loan | — | — | (537) | 537 | — |
| Total transactions with owners recorded directly in equity | 451 | 14,094 | (1,458) | 1,341 | 14,428 |
| **Balance at 30 June 2018** | **3,067** | **37,769** | **—** | **15,622** | **56,458** |

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.

for the year ended 30 June 2018

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **Year ended 30 June 2018 £000** | Year ended 30 June 2017 £000 | **Year ended 30 June 2018 £000** | Year ended 30 June 2017 £000 |
| **Cash flows from operating activities** | | | | | |
| (Loss)/profit for the year | | **(14,623)** | (9,425) | **154** | 154 |
| *Adjustments for:* | | | | | |
| Depreciation, amortisation and impairment | | **14** | 7 | **—** | — |
| Share-based payment | 20 | **808** | 518 | **808** | 518 |
| Net foreign exchange gain | | **(203)** | (16) | **(228)** | — |
| Financial income | 6 | **(95)** | (182) | **(94)** | (182) |
| Finance expenses | 7 | **221** | 272 | **219** | 272 |
| Taxation | 8 | **(2,282)** | (2,730) | **—** | — |
| Increase in inventories | | **(123)** | — | **—** | — |
| Increase in trade and other receivables | | **(1,535)** | (771) | **(38)** | (15) |
| Increase in amount owed to subsidiary undertaking | | **—** | — | **(676)** | (776) |
| Increase in trade and other payables | | **2,320** | 1,861 | **6** | 29 |
| **Cash (used in)/from operations** | | **(15,498)** | (10,466) | **151** | — |
| Interest paid | | **(2)** | — | **—** | — |
| Tax received | 8 | **2,737** | — | **—** | — |
| **Net cash (used in)/from operating activities** | | **(12,763)** | (10,466) | **151** | — |
| **Cash flows from investing activities** | | | | | |
| Additions of property, plant and equipment | | **(19)** | (20) | **—** | — |
| Capitalisation of research and development | | **(15)** | — | **—** | — |
| Purchases of held to maturity financial assets | | **(5,500)** | (11,000) | **(5,500)** | (11,000) |
| Disposal of held to maturity financial assets | | **16,500** | 14,000 | **16,500** | 14,000 |
| Loan to subsidiary undertaking | | **—** | — | **(12,565)** | (10,030) |
| Interest received | | **107** | 189 | **106** | 188 |
| **Net cash from/(used in) investing activities** | | **11,073** | 3,169 | **(1,459)** | (6,842) |
| **Cash flows from financing activities** | | | | | |
| Net proceeds from issue of share capital | | **9,890** | 48 | **9,890** | 48 |
| **Net cash from financing activities** | | **9,890** | 48 | **9,890** | 48 |
| Net increase/(decrease) in cash and cash equivalents | | **8,200** | (7,249) | **8,582** | (6,794) |
| Cash and cash equivalents at the start of the year | | **8,881** | 16,114 | **8,211** | 15,005 |
| Effects of exchange rate changes on cash and cash equivalents | | **203** | 16 | **228** | — |
| **Cash and cash equivalents at the end of the year** | | **17,284** | 8,881 | **17,021** | 8,211 |

## 1 Corporate information

The consolidated financial statements of Diurnal Group plc and its subsidiaries (collectively, the "Group") for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 19 September 2018. 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 13. Information on other related party relationships of the Group is provided in Note 23.

## 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**

The presentational currency of the Group is Pounds Sterling, and the reporting currency is also Pounds Sterling. The foreign subsidiary uses the local currency of the country it operates in i.e. Euros. On consolidation, the results of the overseas operation are translated into Pounds Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of the overseas operation, translated at the rate ruling at the reporting date.

Transactions in foreign currencies entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate, are recorded at the rates ruling when the transactions occur. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated 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 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.

## 2 Significant accounting policies and basis of preparation continued

**2.1 Significant accounting policies continued**

**Non-derivative financial instruments continued**

**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.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using standard costing techniques. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In arriving at net realisable value, provision is made for any obsolete or damaged inventories.

**Held to maturity financial assets**

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

**Cash and cash equivalents**

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

**Interest-bearing loans and borrowings**

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

**Intangible assets**

**Research and development**

Expenditure on research and development activities is recognised in the consolidated income statement as an expense as incurred. Expenditure on research and development activities directly attributable to an intangible asset is capitalised when the following conditions are met:

+ it is technically and commercially feasible to complete the product so that it will be available for use;
+ the Group intends to complete development of the product and sell or use it;
+ the Group has the technical ability and sufficient resources to sell or use the product;
+ it can be demonstrated that the product will generate probable future economic benefits; and
+ the expenditure attributable to the intangible asset during its development can be reliably measured.

The Group considers that marketing authorisation regulatory approval in the relevant jurisdiction confirms these criteria.

Internally developed intangible assets are recorded at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Capitalised directly attributable development costs include clinical trial costs and manufacturing and process development costs. Internal salary costs have not been capitalised as they are not considered to directly relate to bringing the asset to its working condition and employee costs are not allocated by project.

Expenditure in relation to patents registration and renewal of current patents are also expensed in the consolidated 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 relevant intangible assets. Patent assets are amortised from the date they are available for use. Capitalised development costs are amortised from the date of revenue generation from the relevant product. The estimated useful lives are as follows:

| | |
|---|---|
| Patents and licences | ten years |
| Development costs | ten years |

## 2 Significant accounting policies and basis of preparation continued

### 2.1 Significant accounting policies continued

**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.

**Impairment of assets**

An impairment review is carried out annually for assets not yet in use. An impairment review is carried out for assets being amortised or depreciated when a change in market conditions and other circumstances indicates that the carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**Expenses**

**Financing income and expenses**

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

Interest income is recognised in the consolidated income statement as it accrues. Interest payable is recognised in the consolidated income statement as it accrues, using the effective interest method. Dividend income is recognised in the consolidated 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 consolidated 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. The Group recognises R&D tax credit claims on an accruals basis, based upon a successful history of having made such claims. 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 consolidated income statement on a straight-line basis over the expected vesting period. At each year-end date, the Group revises its estimate of the number of options that are expected to become exercisable. This estimate is not revised according to estimates of changes in market-based conditions. A deemed grant date of the first day of the financial year in which performance must be achieved is assumed, in order to account for share awards under the deferred share element of the annual bonus scheme.

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

**Post-retirement benefits**

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

## 2 Significant accounting policies and basis of preparation continued

### 2.1 Significant accounting policies continued

**Employee benefits continued**

**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 that may become due on share-based payments that are not HMRC tax-advantaged.

**Revenue**

Revenue is net invoice value after the deduction of value-added tax and other sales taxes. Deductions are made for product returns based on historical experience.

Revenue is recognised in the consolidated income statement when the risks and rewards associated with the ownership of goods are transferred to the customer. This is deemed to occur when the customer accepts delivery of the product, resulting in the legal transfer of title.

**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 and Company 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 has 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 2018 was a profit of £154k (year ended 30 June 2017: profit of £154k).

The separate financial statements of the Company had previously been presented in accordance with FRS 101 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 FRS 101; 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 17 'Insurance Contracts' effective 1 January 2021
+ 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
+ IFRIC 22 'Foreign Currency Transactions and Advance Consideration' effective 1 January 2018
+ IFRIC 23 'Uncertainty over Income Tax Treatments' effective 1 January 2019
+ IAS 19 'Employee Benefits' Amendments regarding plan amendments, curtailments or settlements effective 1 January 2019
+ IAS 28 'Investments in Associates and Joint Ventures' Amendments regarding long-term interests in associates and joint ventures effective 1 January 2019
+ IAS 40 'Investment Property' Amendments to clarify transfers or property to, or from, investment property effective 1 January 2018
+ Amendments resulting from Annual Improvements 2015–2017 Cycle effective 1 January 2019

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 Significant accounting policies and basis of preparation continued

### 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 capitalisation of development costs and the recognition of deferred tax assets. Other accounting judgements relate to the share options and deferred share bonus awards, which are described in Note 20, and to the convertible loan, which is described in Note 18; the key judgement being the discount rate, assumed as 8%. The convertible loan was retired during the year (see Note 20).

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 balance sheet date. These comprise level 2 financial instruments.

**Capitalisation of development costs**

Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will only be made where there is evidence that an economic benefit will flow to the Company. During the year ended 30 June 2018, the Group commenced capitalisation of development costs of its product Alkindi® in Europe, following approval of the paediatric use marketing authorisation by the EC in February 2018. The Group's internal budgets demonstrate that the product will generate probable future economic benefits supporting its judgement to commence capitalisation of the relevant development costs.

**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, based on the Group's judgement that there is uncertainty regarding the availability of future taxable profits.

There were no estimates made by the Group during the years ended 30 June 2018 and 30 June 2017.

### 2.4 Going concern

For the year ended 30 June 2018, the Group made an operating loss of £16.8m on revenue of £0.07m, with the gross profit being £0.05m, and used net cash in operating activities of £12.8m. Cash and cash equivalents at 30 June 2018 were £17.3m.

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. Under current business plans the Group's cash resources will extend to Q2 2019. Based on this, additional equity funding is expected to be required by the end of Q1 2019. In addition, further funding may be required in the medium term to support the Group in reaching sustainable profitability. The level of additional funds required (if any) will be dependent upon the amount of funds raised in Q1 2019, the Group's performance against forecasts, and the level of income generated from licensing activities, which itself is dependent upon the forthcoming result from the Phase III trial of Chronocort® in Europe.

The Group completed a £10.5m fundraising with existing and new investors in April 2018. The Directors have a reasonable expectation that the Group will be able to raise further equity financing to support its ongoing development and commercialisation activities. The funding environment is expected to be more challenging in the event that the result of the Phase III trial of Chronocort® in Europe is not positive. However, the Directors also have a reasonable expectation that the Group will be able to generate significant funding through entering into strategic collaborations for the development and commercialisation of Alkindi® in the event that the result of the Phase III trial of Chronocort® in Europe is not positive.

However, there can be no guarantee that the result of the Phase III trial of Chronocort® in Europe will be positive, that the Group will be able to raise sufficient funding from existing and new investors, nor that the Group will be able to secure strategic collaborations for its late-stage pipeline. In the event that the additional funding required in Q1 2019 is delayed, the Directors consider that the Group would be able to reduce expenditure on its development programmes, and also accelerate licensing arrangements for Alkindi® and, subject to its Phase III results, Chronocort®, in order to continue funding its operations until additional financing is secured.

Based on the above factors the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the above factors give rise to a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## 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 in order to assess performance and make strategic decisions about the allocation of resources. Previously, the Group reported one segment, which is Clinical Development. Reflecting the approval of the Alkindi® paediatric use marketing authorisation (PUMA) during the year, the Board considers it appropriate to report as follows:

+ Alkindi® – development and supply of the Group's Alkindi® product
+ Chronocort® – development of the Group's Chronocort® product
+ Central and early-stage – all other activities, including development of the Group's early-stage pipeline products

Segmental results are calculated on an IFRS basis.

| | **Alkindi® Year ended 30 June 2018 £000** | **Chronocort® Year ended 30 June 2018 £000** | **Central and early-stage Year ended 30 June 2018 £000** | **Total Year ended 30 June 2018 £000** | Alkindi® Year ended 30 June 2017 £000 | Chronocort® Year ended 30 June 2017 £000 | Central and early-stage Year ended 30 June 2017 £000 | Total Year ended 30 June 2017 £000 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **73** | **—** | **—** | **73** | — | — | — | — |
| Operating loss | **(2,685)** | **(6,210)** | **(7,884)** | **(16,779)** | (2,188) | (4,896) | (4,981) | (12,065) |
| Financial income | **—** | **—** | **95** | **95** | — | — | 182 | 182 |
| Financial expense | **—** | **—** | **(221)** | **(221)** | — | — | (272) | (272) |
| Taxation | **—** | **—** | **2,282** | **2,282** | — | — | 2,730 | 2,730 |
| **Loss for the year** | **(2,685)** | **(6,210)** | **(5,728)** | **(14,623)** | (2,188) | (4,896) | (2,341) | (9,425) |

The revenue analysis below is based on the country of registration of the fee-paying party:

| | **Year ended 30 June 2018 £000** | Year ended 30 June 2017 £000 |
|---|---|---|
| Europe | **73** | — |

An analysis of revenue by customer is set out in the table below:

| | **Year ended 30 June 2018 £000** | Year ended 30 June 2017 £000 |
|---|---|---|
| Customer A | **55** | — |
| Customer B | **17** | — |
| Other customers | **1** | — |
| | **73** | — |

| | **Alkindi® 2018 £000** | **Chronocort® 2018 £000** | **Central and early-stage 2018 £000** | **Total 2018 £000** | Alkindi® 2017 £000 | Chronocort® 2017 £000 | Central and early-stage 2017 £000 | Total 2017 £000 |
|---|---|---|---|---|---|---|---|---|
| Segment assets | **315** | **1,642** | **20,585** | **22,542** | 253 | 416 | 23,259 | 23,928 |
| Segment liabilities | **(842)** | **(2,967)** | **(1,852)** | **(5,661)** | (697) | (1,261) | (4,894) | (6,852) |
| Total (liabilities)/ net assets | **(527)** | **(1,325)** | **18,733** | **16,881** | (444) | (845) | 18,365 | 17,076 |
| Depreciation, amortisation and impairment | **1** | **1** | **12** | **14** | — | 1 | 6 | 7 |
| Capital expenditure | **—** | **—** | **19** | **19** | — | — | 20 | 20 |
| Capitalised development costs | **15** | **—** | **—** | **15** | — | — | — | — |

All material segmental non-current assets are located in the UK.

## 4 Expenses and auditor remuneration

Loss for the year is after charging:

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| Depreciation | **11** | 5 |
| Amortisation | **3** | 2 |
| Research and development expenditure | **10,024** | 8,340 |
| Auditor remuneration | | |
| – fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements | **26** | 23 |
| – auditing the accounts of the subsidiary pursuant to legislation | **7** | 6 |
| **Total auditor remuneration** | **33** | 29 |

## 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 2018 Number | Year ended 30 June 2017 Number |
|---|---|---|
| Research and development | **14** | 9 |
| Administration | **9** | 6 |
| | **23** | 15 |
| Non-Executive Directors | **4** | 4 |
| | **27** | 19 |

Their aggregate remuneration, including Directors, comprised:

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| Wages and salaries | **2,019** | 1,239 |
| Non-Executive Director fees | **123** | 123 |
| Social security | **215** | 148 |
| Pension | **93** | 72 |
| Other benefits | **24** | 9 |
| Share-based payments (see Note 20) | **808** | 518 |
| | **3,282** | 2,109 |

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

Total Directors' emoluments disclosed in the Remuneration Report (excluding the deferred element of the bonus) is £622k. Aggregate key management personnel remuneration is £1,123k (being the sum of the above share-based payment expense and Directors' emoluments).

Share-based payment expense of £501k in respect of Directors was charged to the income statement during the year (2017: £354k).

## 6 Finance income

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| Interest receivable on cash and cash equivalents and term deposits | **95** | 182 |
| **Total finance income** | **95** | 182 |

## 7 Finance expenses

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| Total interest payable on loans | **221** | 272 |
| **Total finance expense** | **221** | 272 |

At the time of the fundraising in April 2018, IP Group exercised its option to convert the loan into equity at the IPO price of 144 pence per share (see Note 18). The financial expense for the year ended 30 June 2018 represents the accrual of the effective interest required to charge the transaction costs and equity element of the loan to the income statement over the term of the loan for the period up to the date of conversion of the loan.

## 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 reflects 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, which was received in May 2018. The amount in respect of the year ended 30 June 2018 has not yet been agreed with HMRC, although there is no reason to believe that this claim will be rejected.

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| **Current tax:** | | |
| – UK corporation tax on losses of year | **—** | — |
| – Research and development tax credit receivable for the current year | **(2,275)** | (1,819) |
| – Prior year adjustment in respect of research and development tax credit | **(7)** | (911) |
| **Deferred tax:** | | |
| – Origination and reversal of temporary differences | **—** | — |
| **Tax on loss on ordinary activities** | **(2,282)** | (2,730) |

## 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 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| Loss on ordinary activities before tax | **(16,905)** | (12,155) |
| Tax at the standard rate of UK corporation tax rate of 19% (2016/17: 19.75%) | **(3,212)** | (2,401) |
| Effects of: | | |
| – Expenses not deductible for tax purposes | **154** | 1 |
| – Depreciation in excess of capital allowances | **(2)** | (3) |
| – Enhanced research and development relief | **(978)** | (741) |
| – Share-based payments | **(62)** | 102 |
| – Prior year adjustments | **(7)** | (911) |
| – Tax losses carried forward | **1,825** | 1,223 |
| **Current tax credits for the year** | **(2,282)** | (2,730) |

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 2018 of 19% (year ended 30 June 2017: 19.75%).

The Group has accumulated losses available to carry forward against future trading profits of £15.8m (2017: £14.7m). 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 £2.7m (2017: £2.5m). A reduction in the rate to 17% from 1 April 2020 was substantively enacted prior to the balance sheet date and has been applied to the Group's deferred tax balance at the balance sheet date.

## 9 Loss per share

| | Loss for the year 2018 £000 | Weighted average number of shares 2018 000 | Loss per share 2018 £ | Loss for the year 2017 £000 | Weighted average number of shares 2017 000 | Loss per share 2017 £ |
|---|---|---|---|---|---|---|
| Basic and diluted | **(14,623)** | **54,596** | **(0.27)** | (9,425) | 52,235 | (0.18) |

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 | Development costs £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 30 June 2016 | 39 | — | 39 |
| Additions | — | — | — |
| Balance at 30 June 2017 | 39 | — | 39 |
| Additions | — | 15 | 15 |
| **Balance at 30 June 2018** | **39** | **15** | **54** |
| **Amortisation** | | | |
| Balance at 30 June 2016 | 33 | — | 33 |
| Charge for the year | 2 | — | 2 |
| Balance at 30 June 2017 | 35 | — | 35 |
| Charge for the year | 2 | 1 | 3 |
| **Balance at 30 June 2018** | **37** | **1** | **38** |
| **Net book value** | | | |
| At 30 June 2016 | 6 | — | 6 |
| At 30 June 2017 | 4 | — | 4 |
| **At 30 June 2018** | **2** | **14** | **16** |

## 11 Property, plant and equipment

| Group | Equipment £000 |
|---|---|
| **Cost** | |
| Balance at 30 June 2016 | 14 |
| Additions | 20 |
| Balance at 30 June 2017 | 34 |
| Additions | 19 |
| **Balance at 30 June 2018** | **53** |
| **Depreciation** | |
| Balance at 30 June 2016 | 11 |
| Charge for the year | 5 |
| Balance at 30 June 2017 | 16 |
| Charge for the year | 11 |
| **Balance at 30 June 2018** | **27** |
| **Net book value** | |
| At 30 June 2016 | 3 |
| At 30 June 2017 | 18 |
| **At 30 June 2018** | **26** |

## 12 Inventories

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Work in progress | **14** | — |
| Finished goods | **109** | — |
| | **123** | — |

## 13 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 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. During the year, the European Medicines Agency issued guidance that marketing authorisations would need to be held in an EU-domiciled entity following the UK's departure from the EU in March 2019. Accordingly, the Group established Diurnal Europe B.V., a wholly owned subsidiary of Diurnal Limited, and transferred the Alkindi® PUMA to Diurnal Europe B.V. after the end of the financial year.

| Group company | Country of incorporation | Proportion of shares held | Activity |
|---|---|---|---|
| Diurnal Limited | UK | 100% | Pharmaceutical development and supply |
| Diurnal Europe B.V. | Netherlands | 100% (held indirectly) | Holding European marketing authorisations |

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 2017/18. 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** | | |
| Balance at 30 June 2016 | 15,351 | 117 |
| Additions | — | 10,806 |
| Balance at 30 June 2017 | 15,351 | 10,923 |
| Additions | — | 13,240 |
| **Balance at 30 June 2018** | **15,351** | **24,163** |
| **Impairment** | | |
| Balance at 30 June 2016 | — | — |
| Balance at 30 June 2017 | — | — |
| **Balance at 30 June 2018** | **—** | **—** |
| Carrying value at 30 June 2016 | 15,351 | 117 |
| Carrying value at 30 June 2017 | 15,351 | 10,923 |
| **Carrying value at 30 June 2018** | **15,351** | **24,163** |

## 14 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 |
| Trade receivables | **77** | — | **—** | — |
| VAT recoverable | **732** | 300 | **34** | 10 |
| Prepayments | **1,904** | 705 | **20** | 18 |
| Other debtors | **105** | 290 | **—** | — |
| Research and development tax credit claims receivable | **2,275** | 2,730 | **—** | — |
| | **5,093** | 4,025 | **54** | 28 |

## 15 Held to maturity financial assets

| Group and Company | **2018 £000** | 2017 £000 |
|---|---|---|
| Bank term deposits | **—** | 11,000 |

During the year, the Group changed its treasury arrangements to a segregated cash facility with instant access to deposits; consequently, there were no held to maturity financial assets as at 30 June 2018.

## 16 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 |
| Cash at bank and on hand | **17,284** | 8,881 | **17,021** | 8,211 |

The Group holds its cash and cash equivalents with its clearing bank and in a segregated cash facility providing same day access to its cash. The Group's treasury policy is summarised in Note 21. 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 £5m and that the maximum term is 12 months. The Group's deposits are in line with this policy.

## 17 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 |
| Trade payables | **3,159** | 1,724 | **19** | 58 |
| Other payables | **9** | — | **—** | — |
| Other tax and social security | **72** | 65 | **—** | — |
| Accrued expenses | **2,421** | 1,552 | **112** | 68 |
| | **5,661** | 3,341 | **131** | 126 |

## 18 Loans and borrowings

| Group and Company | 2018 £000 | 2017 £000 |
|---|---|---|
| **Non-current loans and borrowings** | | |
| Convertible loans | — | 3,511 |

**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. 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 the time of the fundraising in April 2018, IP2IPO Limited exercised its option to convert the loan into equity at the IPO price of 144 pence per share (see Note 7). 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 was accrued for the period up to the date of conversion of the loan (see Note 7). Upon conversion of the loan, 3,229,575 new ordinary shares were issued, with the difference between the value of shares issued and accrued loan amount of £921k being debited from other reserves. The shortfall of £537k between the redemption value of the loan at maturity and the accrued value at the date of conversion was transferred from other reserves to accumulated losses.

At 30 June 2017, the amount outstanding comprised:

| | 2017 £000 |
|---|---|
| Loan amount brought forward | 3,239 |
| Accrued interest | 272 |
| Liability component at year end | 3,511 |
| Less amount included in current liabilities | — |
| Included in non-current liabilities | 3,511 |

## 19 Share capital

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number | £000 | Number | £000 |
| **Authorised** | | | | |
| Ordinary shares of £0.05 each | **61,336,523** | **3,067** | 52,320,759 | 2,616 |
| **Issued** | | | | |
| Ordinary shares of £0.05 each | **61,336,523** | **3,067** | 52,320,759 | 2,616 |

## 20 Share-based payments

At 30 June 2018, 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 were 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 were 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 Directors' 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. Performance conditions for performance share award include a component relating to share price performance and a component relating to the achievement of key operational milestones during the performance period. 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.

## 20 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 over a relevant period prior to the grants.
+ 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 | **2018** | **2018** | 2017 | 2017 |
|---|---|---|---|---|
| Deemed grant date | **11 December 2017** | **17 October 2017** | 8 May 2017 | 8 November 2016 |
| Award type | **Performance share** | **Performance share** | Performance share | Performance share |
| Share price | **£1.43** | **£1.35** | £1.26 | £1.20 |
| Exercise price | **£0.05** | **£0.05** | £0.05 | £0.05 |
| Expected volatility | **10.8%** | **10.7%** | 25.9% | 27.4% |
| Expected option life | **5 years** | **5 years** | 5 years | 5 years |
| Expected dividends | **0.00%** | **0.00%** | 0.00% | 0.00% |
| Risk free interest rate | **0.75%** | **0.73%** | 0.46% | 0.62% |
| Fair value per award | **£1.382** | **£1.297** | £1.211 | £1.152 |
| Number of options/awards | **39,033** | **538,245** | 404,762 | 479,660 |

| Financial year ended | 2016 | 2016 | 2016 | 2016 |
|---|---|---|---|---|
| Deemed grant date | 11 September 2015 | 23 September 2015 | 12 April 2016 | 12 April 2016 |
| Award type | Share option | Share option | Share option | Share award |
| Share price | £0.625 | £0.625 | £1.470 | £1.470 |
| Exercise price | £0.438 | £0.002 | £0.002 | £0.050 |
| Expected volatility | 65.0% | 65.0% | 67.6% | 66.9% |
| Expected option life | 5 years | 5 years | 5 years | 2.7 years |
| Expected dividends | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk free interest rate | 1.22% | 1.20% | 0.81% | 0.43% |
| Fair value per award | £0.392 | £0.623 | £1.468 | £1.421 |
| Number of options/awards | 1,108,500 | 729,000 | 104,421 | 32,374 |

Prior to the year ended 30 June 2018, historic volatility was measured using a composite basket of similar companies in the biotechnology sector, given the limiting trading history of the Company following its IPO in December 2015, with effect from the year ended 30 June 2018, historical volatility is measured using the Company's share price only.

## 20 Share-based payments continued

**Share options continued**

**IFRS 2 valuation – share options issued under the LTIP continued**

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Weighted average exercise price £** | **Number of options** | Weighted average exercise price £ | Number of options |
| Outstanding at the beginning of the year | **0.154** | **4,427,217** | 0.127 | 3,872,795 |
| Granted during the year | **0.050** | **577,278** | 0.050 | 884,422 |
| Exercised during the year | **0.093** | **(150,582)** | 0.438 | (110,000) |
| Lapsed during the year | **0.050** | **(25,625)** | 0.438 | (220,000) |
| Outstanding at the end of the year | **0.144** | **4,828,288** | 0.154 | 4,427,217 |
| Exercisable at the end of the year | **0.144** | **2,844,114** | 0.048 | 2,435,807 |

**Deferred share bonus awards**

The Group and Company operate 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.

**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 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 the Company over a relevant period prior to the grants.
+ 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 2018 |
|---|---|
| Deemed grant date | 1 July 2017 |
| Award type | Deferred bonus share |
| Share price | £1.31 |
| Exercise price | £0.050 |
| Expected volatility | 20.3% |
| Expected option life | 3 years |
| Expected dividends | 0.00% |
| Risk free interest rate | 0.38% |
| Fair value per award | £1.26 |
| Deemed number of options | 114,102 |

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

## 20 Share-based payments continued

**Deferred share bonus awards continued**
**IFRS 2 valuation continued**
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:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Weighted average exercise price £** | **Number of options** | Weighted average exercise price £ | Number of options |
| Outstanding at the beginning of the year | **0.05** | **109,293** | — | — |
| Granted during the year | **—** | **—** | 0.05 | 109,293 |
| Exercised during the year | **0.05** | **(109,293)** | — | — |
| 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 2018 £000** | Year ended 30 June 2017 £000 |
|---|---|---|
| Share options | **707** | 467 |
| Deferred share awards | **101** | 51 |
| | **808** | 518 |

## 21 Financial instruments

The Group's and Company's activities expose them 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 had an outstanding interest free convertible loan at 30 June 2017 with an outstanding principal amount of £4.7m, which was converted during the year ended 30 June 2018 (see Note 18), 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.

## 21 Financial instruments continued

**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.

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 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **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 | **3,159** | **3,159** | **3,159** | **—** | **—** | **—** |
| | **3,159** | **3,159** | **3,159** | **—** | **—** | **—** |

| | 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 | — | — | 4,651 | — |
| | 5,235 | 6,375 | 1,724 | — | 4,651 | — |

1. The convertible loan (see Note 18) was included in the analysis assuming repayment at the end of its five year contractual term.

**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 2018 £000** | Year ended 30 June 2017 £000 |
|---|---|---|
| 1% increase in Euro | **(7)** | (10) |
| 1% decrease in Euro | **7** | 10 |
| 1% increase in US Dollar | **(35)** | (1) |
| 1% decrease in US Dollar | **36** | 1 |

## 21 Financial instruments continued

**Credit risk**

The Group is exposed to credit risk from its cash investments and its trade receivables. The Group minimises the risk to its cash investments 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. The Group minimises risk to its trade receivables by performing credit checks on potential customers and setting appropriate credit limits based upon the recommendation of credit agencies.

**Interest rate risk of financial assets**

| | Year ended 30 June 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| **Held to maturity financial assets** | | |
| Fixed rate – GBP | **—** | 0.64% |
| **Cash and cash equivalents** | | |
| Floating rate – GBP | **0.47%** | 0.23% |
| Floating rate – EUR | **0.00%** | 0.05% |
| Floating rate – USD | **0.95%** | — |

The following table considers the impact of a change of the Sterling interest rate of +/– 100 basis points, 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 2018 £000 | Year ended 30 June 2017 £000 |
|---|---|---|
| 1% increase in Sterling interest rate | **138** | 82 |
| 1% decrease in Sterling interest rate | **(138)** | (82) |

**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.

## 22 Capital commitments

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

## 23 Related party transactions

Transactions between the Company and its subsidiaries Diurnal Limited and Diurnal Europe B.V., which are related parties, have been eliminated on consolidation. The Company holds the Group's treasury balances, and provides funds to Diurnal Limited in order to fund its operating activities. Such movements are recorded through an intercompany loan account. The Company makes a management charge to Diurnal Limited each year, which is disclosed in the table below. Diurnal Europe B.V. recharges its operating expenses along with a management charge to Diurnal Limited, which is disclosed in the table below. Details of the intercompany loan account between the Company and Diurnal Limited are disclosed in Note 13.

The following transactions with shareholders (subsidiaries of IP Group plc, Development Bank of Wales plc (formerly Finance Wales plc) and subsidiaries) were recorded, excluding VAT, during the year:

| | **Year ended 30 June 2018 £000** | Year ended 30 June 2017 £000 |
|---|---|---|
| **Purchase of goods and services** | | |
| IP Group plc and subsidiaries | **29** | 29 |
| Development Bank of Wales plc (formerly Finance Wales plc) and subsidiaries | **—** | 1 |
| **Recharges between group companies** | | |
| Charges from Diurnal Group plc to Diurnal Limited | **672** | 780 |
| Charges from Diurnal Europe B.V. to Diurnal Limited | **18** | — |
| | **719** | 810 |

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. The aggregate key management personnel remuneration is disclosed in Note 5.

**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. At the time of the fundraising in April 2018, IP2IPO Limited exercised its option to convert the loan into equity at the IPO price of 144 pence per share.

## 24 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 2018 Annual General Meeting of Diurnal Group plc (the "Company") will be held at the offices of FTI Consulting LLP, 200 Aldersgate, Aldersgate Street, London EC1A 4HD, on Wednesday 14 November 2018 at 11.00 a.m. for the following purposes:

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

1. To receive and adopt the Company's audited Annual Report and accounts and the Strategic Report and Directors' and Auditor's Reports thereon for the year ended 30 June 2018.
2. To receive and approve the Directors' Remuneration Report contained within the Annual Report and accounts for the year ended 30 June 2018.
3. To reappoint KPMG LLP as auditor 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.
4. To authorise the Directors or any Audit Committee of the Directors to determine the remuneration of the auditor.
5. That, pursuant to section 551 of the Companies Act 2006 (the "Act"), the Directors be generally and unconditionally authorised to allot Relevant Securities:

   5.1 up to a maximum aggregate nominal value of £1,022,275.38 or, if less, the nominal value of one third of the issued share capital of the Company; and

   5.2 comprising equity securities (as defined in section 560(1) of the Act) up to a maximum aggregate nominal value of £2,044,550.77 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 5.1) in connection with an offer by way of a rights issue or other pre-emptive offer:

      5.2.1 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

      5.2.2 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).

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

6. That, subject to the passing of resolution 5 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 5 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:

   6.1 in connection with an offer or issue of equity securities (whether by way of a rights issue, open offer or other pre-emptive offering):

      6.1.1 to holders of ordinary shares in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

      6.1.2 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

   6.2 otherwise than pursuant to paragraph 6.1 of this resolution up to an aggregate nominal amount of £153,341.31 (being equivalent to 5% 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.

7. That, subject to the passing of resolution 5 and pursuant to section 570 of the Act, the Directors be and are generally empowered in addition to any authority granted under resolution 6 to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 5 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:

   7.1 up to a nominal amount of £153,341.31 (being equivalent to 5% of the nominal value of the issued share capital of the Company); and

   7.2 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.

8. 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 9,194,344 ordinary shares (being approximately 14.99% 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:

   8.1 the maximum price which may be paid for each share (exclusive of expenses) shall not be more than the higher of: (1) 5% 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

   8.2 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.

By order of the Board

**Richard Bungay**
Company Secretary
8 October 2018

**Registered office**
Cardiff Medicentre
Heath Park
Cardiff CF14 4UJ

Registered in England and Wales No. 09846650

## Notice of Meeting notes

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on 12 November 2018. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 11.00 a.m. (UK time) on 14 November 2018 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. 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 ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. 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).
5. 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 Meeting.
6. You can vote either:
   + by logging on to www.signalshares.com and following the instructions;
   + by requesting a hard copy form of proxy directly from the registrar, Link Asset Services (previously called Capita), on Tel: 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. Lines are open between 9:00 a.m. and 5:30 p.m., Monday to Friday excluding public holidays in England and Wales; or
   + in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent BR3 4ZF, by 11.00 a.m. on 12 November 2018.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in Note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.
10. In order for a proxy appointment or instruction made by means of CREST 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 must be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00 a.m. on 12 November 2018. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent 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.

## Notice of Meeting notes continued

11. 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 message. 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 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 system 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 as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

13. As at 5 October 2018 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 61,336,523 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 5 October 2018 are 61,336,523.

14. Under section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

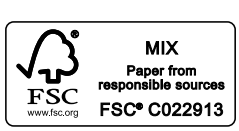
15. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

16. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, 20 minutes before commencement of the Meeting until the conclusion of the Meeting:

    + copies of the Directors' letters of appointment; or
    + service contracts.

17. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

    A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found on the Company's website at www.diurnal.co.uk.

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