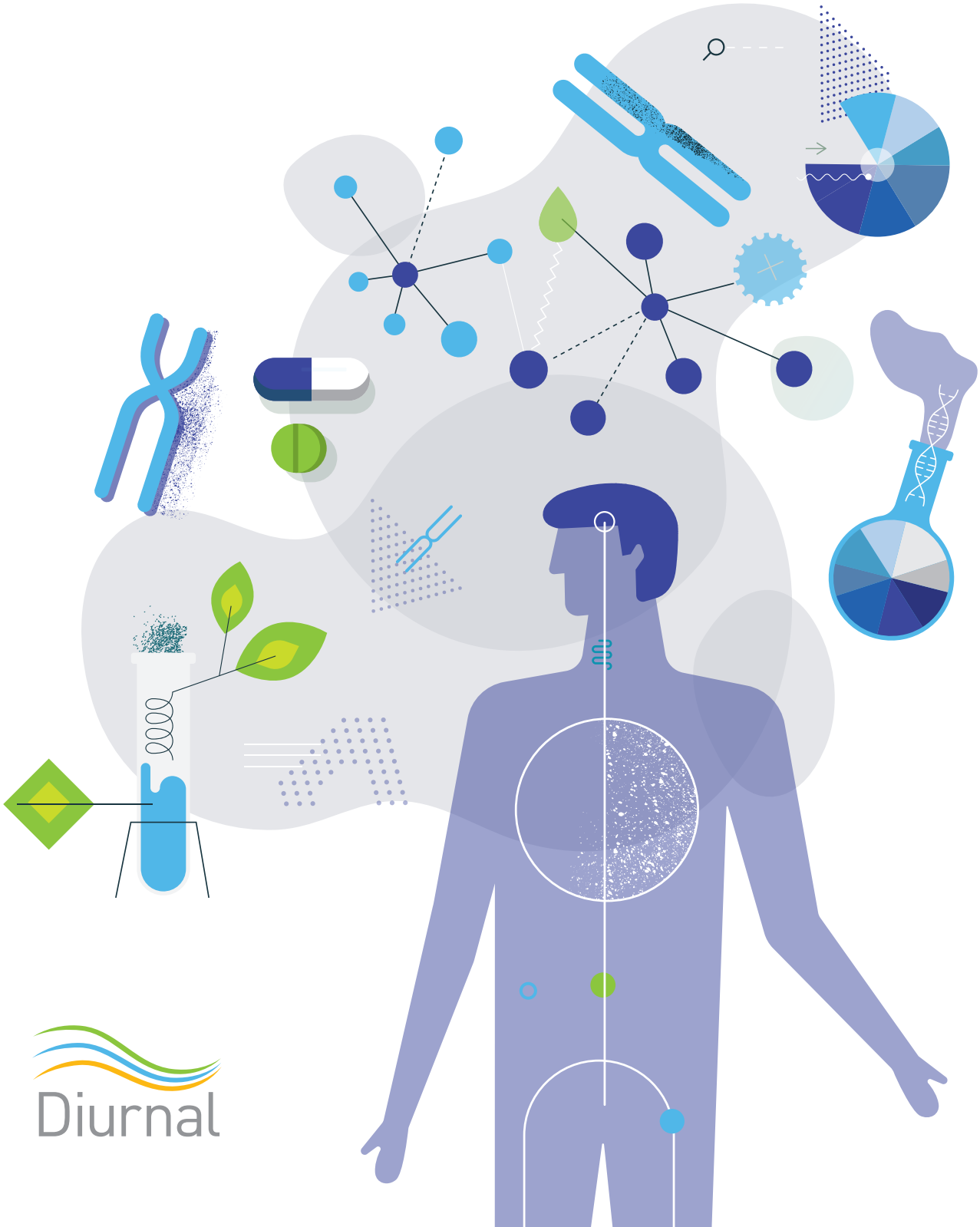
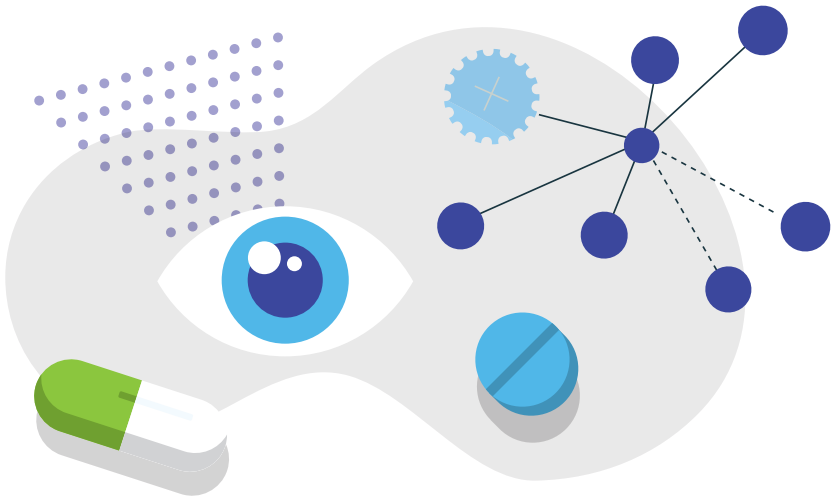
ADDRESSING PATIENTS' EVERYDAY NEEDS

Diurnal Group plc Annual Report 2019



Diurnal



Our vision

To become a world-leading endocrinology specialty pharma company.

Addressing patients' everyday needs

We are committed to addressing major unmet clinical and patient needs in endocrine diseases, 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

Alkindi®

+ Successful launch of Alkindi® in the UK as the first specifically developed and licensed replacement therapy for paediatric adrenal insufficiency
+ Alkindi® pricing agreed in Germany, Italy, Austria, Sweden, Norway, Denmark and Iceland
+ Confirmation of the current clinical and regulatory path for Alkindi® in the US with the US Food and Drug Administration, facilitating a New Drug Application (NDA) submission in Q4 2019
+ Progress in rest of world with Alkindi® Marketing Authorisation Application (MAA) submission in Israel and grant of Orphan Drug Designation in Australia

Chronocort®

+ MAA submission is on track for Q4 2019: confirmation of the current clinical and regulatory path for Chronocort® by the European Medicines Agency following completion of European Phase III study
    + Pivotal study in congenital adrenal hyperplasia, the largest ever interventional study in this disease
        + Study missed primary endpoint of superiority of Chronocort® to conventional therapy in control of androgens (17-OHP) over the 24-hour period
        + Chronocort® achieved significantly better control of androgens (17-OHP) in the period 07:00–15:00
        + Chronocort® achieved 24-hour control on the same or lower overall dose of glucocorticoid with fewer patients requiring rescue therapy (sick day rules)
+ Scientific advice from the EMA confirmed no additional studies required

Financial

+ Alkindi® revenues reached over £1m during the financial year
+ Successful completion of a £5.9m placing and open offer with institutional and private investors to fund further development of Diurnal's late-stage pipeline and commercial roll-out
+ Reduced operating loss of £14.5m (2018: £16.8m) reflecting completion of Chronocort® European Phase III study, implementation of cost-saving measures and increase in revenues
+ Cash and cash equivalents at 30 June 2019 of £9.1m (30 June 2018: £17.3m)
+ Net cash used in operating activities was £13.7m (2018: £12.8m), in line with the Board's expectations

Post-period highlights

+ Successful launch of Alkindi® in Sweden and Denmark
+ Submission of MAA for Alkindi® in Australia following the grant of Orphan Drug Designation
+ Investment in enhanced capsuling capability for Alkindi® and Chronocort® agreed with manufacturing partner, Glatt Pharmaceutical Services

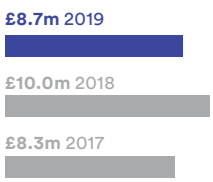
Key performance indicators

Total sales

£1,044k

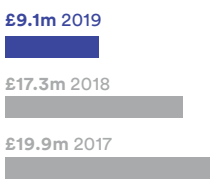
Research and development expenditure[1]

£8.7m



Cash and cash equivalents and held to maturity financial assets

£9.1m



1. Excluding impact of capitalised development costs.

Targeting patient needs in chronic endocrine diseases

OUR PRODUCTS

LATE-STAGE "ADRENAL FRANCHISE"

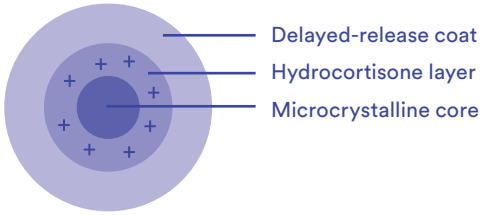
Alkindi® (development name: Infacort®)

+ Immediate-release hydrocortisone preparation targeting adrenal insufficiency (including congenital adrenal hyperplasia) in children under 18 years of age in Europe and under 17 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 regulatory submission (NDA) scheduled for Q4 2019.

Read more on pages 8 and 9

Chronocort®

+ Modified-release hydrocortisone preparation, initially targeting congenital adrenal hyperplasia in adult patients.
+ Completed European Phase III clinical trial in October 2018.
+ European regulatory submission (MAA) scheduled for Q4 2019.
+ US Phase III clinical trial redesigned following European Phase III results.



Read more on pages 9 to 11

WHY INVEST IN DIURNAL

Strong base position in rare endocrine diseases

5

products in pipeline including 3 for treatment of orphan diseases

Robust in-market protection

Lead products have commercial exclusivity until

2034

Opportunities to broaden the offering

$10bn

combined total market opportunity for pipeline products

Strong team with ability to deliver

175 years

of combined experience for the Board across medical, finance and biotech

EARLY-STAGE PIPELINE

Native oral testosterone (DITEST™)

+ Testosterone replacement treatment for patients suffering from male hypogonadism.
+ Completed a Phase I proof-of-concept study in male hypogonadal patients during 2018 with data expected in Q4 2019.

T3 modified-release

+ A modified-release preparation of T3 (triiodothyronine) hormone for patients suffering from hypothyroidism.
+ Formulation feasibility work planning underway with a view to commencing human clinical studies in due course.

siRNA

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

DRUG DEVELOPMENT PIPELINE

Name	Indication	Pre-clinical	Phase I	Phase II	Phase III	Regulatory	Market	Est. regulatory opinion
Alkindi®	Paediatric adrenal insufficiency	EU						Approved
		US						2020
Chronocort®	Congenital adrenal hyperplasia	EU						2021
		US						2023
	Adrenal insufficiency	EU						2023
		US						TBC
Native oral testosterone (DITEST™)	Hypogonadism	EU						TBC
		US						TBC
T3 modified-release	Hypothyroidism	EU						TBC
		US						TBC
siRNA	Cushing's	EU						TBC
		US						TBC

Positioning Diurnal for future growth

Diurnal has ended a challenging year in a strong position as the Group continues to move towards its vision of becoming a world-leading endocrinology specialty pharma company. The strong market uptake of Alkindi® is a validation of both the Group's strategy of focusing on the treatment of chronic endocrine diseases and of its expertise in developing, registering and commercialising high-quality products.

Similarly, following the surprising initial headline data from the Phase III trial, the progress made towards ensuring the Chronocort® European commercial launch remains on track is testament to the resilience and resourcefulness of our staff and we look forward to the MAA submission which remains on track for Q4 2019. I am particularly encouraged by the strong support we continue to receive from physicians and patient groups who provide valuable input into the development of our products, and from our investors who have continued to support the Group during this critical period in its development.

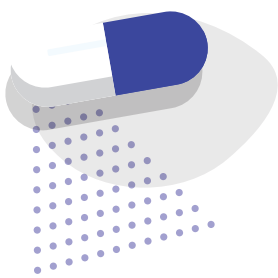
A focused strategy

Diurnal is focused on the in-house commercialisation of Alkindi® and Chronocort® in key European territories where it is able to optimise market access in a cost-effective manner. For markets outside of these core territories, Diurnal's strategy is to engage with partners which have extensive local knowledge, and strong commitment to our products, and which are able to rapidly gain market access to help patients.

The launch of Alkindi® has provided Diurnal the opportunity to 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. The Group will realise significant synergies through the use of the same commercial infrastructure and supply chain for Chronocort® in Europe, following the anticipated marketing authorisation submission in late 2019 and subsequent regulatory approval. Chronocort® will also benefit significantly from the Group's experience in obtaining regulatory and pricing approval for Alkindi®.

Chronocort® presents the opportunity of a "platform product", with the potential to expand beyond the treatment of congenital

adrenal hyperplasia (CAH) into adrenal insufficiency (AI), which is approximately five times the size of the CAH market, as well as other potential indications in inflammatory diseases. By leveraging its late-stage portfolio in this way, Diurnal believes it can build a highly 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 continues to believe its focus on rare and orphan diseases in the endocrine space provides the opportunity to develop high-quality, differentiated products that address the burden of living with these diseases and demonstrate clear clinical benefits, both to physicians and payers, as shown by the success of Alkindi® following its launch in May 2018.

Delivering our late-stage pipeline

Diurnal has continued to make significant progress with its innovative products for the treatment of cortisol deficiency, Alkindi® for paediatric patients and Chronocort®.

Diurnal's belief in the clinical benefits of Alkindi® has been borne out in the market, with pricing now agreed in a number of European territories in line with the Group's aspirations. The Group achieved revenues in excess of £1m during the year, reflecting a highly successful Alkindi® launch.

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

An important event during the year was the completion of the Chronocort® European Phase III study in October 2018. Despite Chronocort® controlling patients' condition more effectively than in its successful Phase II trial, it failed to meet the complex primary efficacy endpoint. Nevertheless, it is clear to Diurnal that Chronocort® is a safe and effective treatment that is able to deliver real benefits to patients; this was corroborated in a successful meeting with the European Medicines Agency (EMA), which confirmed the current regulatory path. As a consequence, a European MAA will be submitted in Q4 2019 without the need for additional clinical trials.

Following the unexpected headline result from the Chronocort® European Phase III programme, the Group deemed it prudent to pause the Chronocort® US development programme, in order to incorporate key learnings from the European study. The US protocol has now been redesigned and is ready for recommencement of development, which is likely to be in conjunction with a partner.

Outside of these territories, Diurnal's partners in Israel and Australia have continued to make excellent progress. The Group will continue to seek opportunities to maximise the value of Alkindi® by seeking partners in other territories, particularly those which can accept the European regulatory dossier and which will support pricing in line with the clinical benefits offered by the product.

Financial stability

Diurnal successfully completed a £5.9m placing and open offer in June 2019, which will facilitate the submission of marketing authorisation applications for Chronocort® in Europe and Alkindi® in the US, as well as the continued build-out of the commercial infrastructure to support the expected growth in Alkindi® revenues over the coming years. Diurnal has managed costs carefully during the year and 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 provide much-needed, high-quality treatment options to patients with chronic endocrine diseases.

Strong governance and risk management

The Group has continued to operate a strong system of internal controls and appropriate risk management systems throughout the year. The identification and management of risks is embedded in the senior management team and is overseen by the Board, which enables the Group to pre-empt and effectively manage issues across the business.

A key focus during the year has been Diurnal's preparations for the UK's planned departure from the European Union. Diurnal's commercial supply chain is located entirely within the EU, in order to minimise any cross-border trading impacts on the commercialisation of Alkindi® across Europe. The Group's wholly owned subsidiary in the Netherlands is now fully equipped to commercialise products within the EU on an ongoing basis. It is a testament to Diurnal's quality approach and systems that it was able to obtain the necessary licences and approvals on a timely basis, to avoid disruption of the business.

People and culture

I would like to thank our employees for their continued support and hard work in driving the Group's progress towards commercialising its first products, in particular given the challenges in the current year and the complexities of transitioning from a development organisation to a fully integrated company. Few UK companies have successfully taken their own product from concept to commercialisation and the fact that our key milestones have been met during a period of intense activity and change demonstrates the strength of the Diurnal team. I am pleased that, throughout this period of rapid growth and development, Diurnal has managed to retain an entrepreneurial culture, both in its direct employees and also in the highly skilled contractors and consultants who support the business.

I would also like to thank my fellow Board members for the progress made this year in overseeing a strategy that will ensure continued and sustainable growth from our pipeline.

Key milestones expected next year

The next 12 months are expected to see further significant progress in Diurnal, with two major regulatory filings anticipated within the first half of our next financial year and continued launches of Alkindi® in key European markets. The Group also expects to report progress in finding a partner for its late-stage products in the US and other markets globally. The Group remains mindful of external growth opportunities and continues to assess endocrinology assets that fit within its disease focus.

Looking forward, I am optimistic that the Group's novel late-stage pipeline products are well positioned to deliver Diurnal's ambition of becoming a world-leading, endocrinology-focused specialty pharma company, delivering significant value for our shareholders.

Peter Allen
Chairman
23 September 2019

Q&A

with our CEO, Martin Whitaker

How do you feel Diurnal performed during the 2018/19 financial year?

Overall, we have made excellent progress across the business, despite the initially disappointing data from the Chronocort® European Phase III trial. For Alkindi®, we met a significant milestone in reaching revenues of more than £1m for the year and are now progressing towards a marketing authorisation approval submission in the US, where we could have approval in late 2020. For Chronocort®, we now have a clear regulatory path in Europe with potential for approval in CAH in early 2021 and have successfully redesigned the US Phase III study in CAH to give this the best chance of success.

This has undoubtedly been a challenging year for our employees, and I am delighted with the way in which the team has addressed the various challenges during the year.

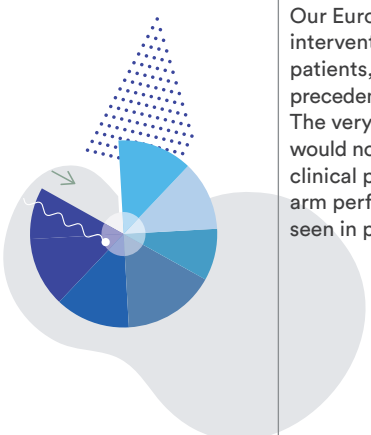
How has the Alkindi® launch gone so far?

We have made excellent progress with pricing discussions and, consequently, expect a series of further country launches in H2 2019, following launch in the UK and Germany during 2018. We are pleased that national pricing authorities have recognised the value proposition of Alkindi® for patients, which has enabled us to achieve pricing in line with our expectations.

A frustration during the year has been the significant amount of time and resource we have had to invest to ensure that we are able to supply Alkindi® to patients following the UK's planned departure from the EU; however, I am pleased to report that we have now completed these activities.

Why do you think Chronocort® failed the primary endpoint in the European Phase III trial?

Our European Phase III trial is the largest interventional study ever conducted in CAH patients, meaning that we had very little precedent to draw on when designing the study. The very detailed dose titration regime, which would not be acceptable or affordable in routine clinical practice, led to the standard-of-care arm performing much better than we have seen in previous studies and publications.



Allied to this, the statistical methodology we selected was unable to better discriminate between the androgen control seen with Chronocort® compared to the standard-of-care arm; however, alternative methodologies that had been previously discussed with the European Medicines Agency (EMA) were able to show Chronocort® benefit.

How confident are you in the commercial potential of Chronocort®?

Following the positive scientific advice meeting with EMA in Q2 2019, we have a clear regulatory path for Chronocort® and we are working hard to submit our market authorisation application in Q4 2019. We have also had extremely positive feedback from our clinical investigators and other key opinion leaders on the Chronocort® data. We believe that the clinical benefits that have been seen with Chronocort® in the Phase III study and, subsequently, in interim analyses of the ongoing long-term follow-on study will support the successful commercialisation of Chronocort® in line with our expectations.

How will you commercialise your products outside of Europe?

In the US, we are currently undertaking discussions with a number of parties regarding the commercialisation of Alkindi®, and potentially the development and commercialisation of Chronocort® with the same party. There has been significant interest in the products, and we are confident of completing a collaboration during the 2019/20 financial year.

There are also a number of other significant markets we are exploring. Japan remains a large opportunity for our late-stage pipeline: following the grant of our patents for Alkindi® and Chronocort® in that territory, we are formulating a regulatory strategy ahead of commencing discussions with partners during H2 2019. We have also seen significant interest in Alkindi® in China, where the health authorities have recently been focusing on treatments for chronic paediatric diseases, such as CAH.

What key news flow can we expect from Diurnal in the 2019/20 financial year?

We will continue to roll out Alkindi® across Europe with multiple country launches scheduled for H2 2019. Key milestones are the planned marketing authorisation applications for Alkindi® in the US and Chronocort® in Europe, both in Q4 2019. We also expect to report progress with our ongoing business development and partnering activities during the next financial year.

Building on the success of our first product launch

"Diurnal believes that it can become one of the few UK biotechnology companies to successfully take multiple products from concept to commercialisation."

The Group's primary focus remains on progressing Chronocort® and Alkindi®, our two lead products, which are potentially valuable treatment options with a combined opportunity in the US and Europe of over $400m for congenital adrenal hyperplasia (CAH) and paediatric adrenal insufficiency (AI), underserved orphan diseases resulting from cortisol deficiency. During the year, Alkindi® has made significant commercial progress following first country launches in the UK and Germany. Despite the initially disappointing top-line analysis of data from the Chronocort® European Phase III clinical trial during Q3 2018, Diurnal believes the overall data package is compelling with respect to the drug as a potential treatment for CAH. Following a positive scientific advice meeting with the European Medicines Agency (EMA) in Q2 2019, the Group expects to file a marketing authorisation application (MAA) for Chronocort® using the existing clinical data in Q4 2019. With the operational progress made over the past year, Diurnal believes it can become one of the few UK biotechnology companies to successfully take multiple products from concept to commercialisation.

Late-stage pipeline: targeting patient needs in diseases of cortisol deficiency

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

CAH is an orphan condition caused by the deficiency of adrenal enzymes, most commonly 21-hydroxylase, which is required to produce cortisol, an essential hormone in regulating metabolism and the response to stress. The block in the cortisol production pathway causes the over-production of male steroid hormones (androgens), which are precursors to cortisol. The condition presents 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 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 41,000 patients in Europe and 16,000 patients in the US, with approximately 405,000 patients in the rest of the world.

AI is a condition characterised by deficiency in cortisol often acquired during a person's lifetime. The primary symptom of AI is 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 the pituitary gland to stimulate the adrenal gland. The condition is estimated to affect approximately 297,000 patients in Europe and 154,000 patients in the US, with approximately three million 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 4,100 sufferers under the age of 17, and in Europe, where there are estimated to be around 10,000 sufferers under the age of 18. Untreated, the disease is associated with significant morbidity and increased mortality.

Diurnal – Company history

2004
Diurnal founded as a spinout from the University of Sheffield

2005
EU Orphan Drug Designation approved for Chronocort® for congenital adrenal hyperplasia (CAH)

2004–08
Chronocort® intellectual property licensed to Phoqus plc

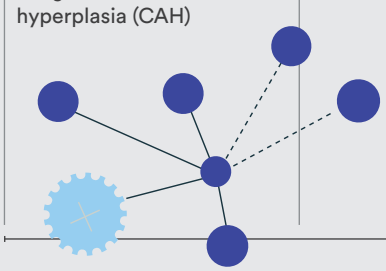
2007
EU Orphan Drug Designation approved for Chronocort® for adrenal insufficiency (AI)

2008–09
Chronocort® licence repurchased

Institutional shareholder base established and partners engaged to develop Chronocort®

2012
Development of different formulation, manufacturing process and dosing regimen for Chronocort®

Successful conclusion of Chronocort® Phase I clinical trials



Alkindi® Europe: strong market uptake driving revenue growth

Alkindi® is the first product specifically designed for young children suffering from paediatric AI, and the related condition CAH. Alkindi® is licensed in Europe, and has been proven to be effective, safe and easy to administer. Given the specialist prescribing base, and to retain the maximum commercial value of the product, Diurnal is commercialising Alkindi® itself in larger European markets, focusing its marketing efforts initially on patients aged 0-6 years where the unmet need is highest. Diurnal will assess the most effective means of accessing smaller markets for Alkindi®, either through the use of in-house resources or distribution partners.

Diurnal launched Alkindi® in the UK in September 2018, its second launch following introduction in Germany in May 2018. During the year, Diurnal has continued to make good progress in both territories, including pricing discussions, notably with a positive Scottish Medicines Consortium pricing and reimbursement decision in October 2018 and agreement of the price in Germany. Alkindi® achieved revenues of over £1m during the financial year, a key milestone for the Group, and has continued to make strong progress, with continued revenue growth to date in H2 2019.

The roll-out of Alkindi® beyond Germany and the UK has continued during the year, with pricing agreed in Italy, Sweden, Denmark, Austria, Norway and Iceland.

Diurnal believes that the health economic arguments supporting Alkindi® are robust and support pricing submissions in the remaining key European markets. The Group expects a series of country launches during the remainder of 2019 that will continue to provide strong revenue growth for Alkindi®, including the launch in the Nordic region shortly after the end of the financial year by its distribution partner Frost Pharma (formerly Anthrop Pharma).

Diurnal has continued to develop a robust product supply chain during the year, in particular to minimise disruption to the Group's operations should the UK depart from the EU without a transitional arrangement. The Group's supply chain remains located entirely within the EU, with primary manufacturing of Alkindi® capsules in Germany, packaging in France and distribution in the Netherlands. Diurnal's wholly owned subsidiary, Diurnal Europe B.V., holds the Alkindi® EU marketing authorisation and Wholesaler Dealer Licence required to market Alkindi® in the EU should the UK depart from the EU.

The Group believes that its European commercial infrastructure is a valuable asset that can ensure it not only retains the maximum commercial value of its in-house products in major European territories, but also makes Diurnal an attractive partner for companies seeking to commercialise endocrinology-focused products in Europe. As a result, Diurnal continues to assess such business development opportunities where they are additive to its business model.

2013
Successful completion of Alkindi® Phase I clinical trials in adults, enabling progression to Phase III paediatric trials

Chronocort® Phase II clinical trial begins in adult CAH patients at the National Institutes of Health (US)

2014–15
Diurnal secures further funding to initiate Phase III registration trials of both Alkindi® and Chronocort® in Europe and to further strengthen the management team

2017
Alkindi® receives positive opinion for approval from European Medicines Agency

Alkindi® and Chronocort® patents granted in the US

2018
Alkindi® receives market authorisation approval from European Commission

Alkindi® launched in Germany and the UK – first revenues generated

Alkindi® US: regulatory submission planned for 2019

During the year, Diurnal successfully completed the Alkindi® US reference drug bioequivalence study to support its planned New Drug Application (NDA) submission in the US. In addition, the Group completed the Alkindi® safety evaluation and tolerability extension study in Europe, which will provide valuable long-term exposure data in support of market access in the US.

Following the successful completion of these studies, Diurnal discussed the proposed NDA package with the US FDA, which confirmed Diurnal's planned regulatory path for Alkindi® in the US. Reflecting this, Diurnal plans to submit an NDA for Alkindi® during Q4 2019, with potential for approval in late 2020. In parallel with the NDA submission, Diurnal will apply for Orphan Drug Status for Alkindi® in paediatric AI, which requires Diurnal to demonstrate significant clinical benefit for Alkindi® compared to existing therapies. Diurnal intends to seek a licensing partner for its late-stage products in the US and, following the positive FDA feedback, has now initiated partnering discussions for Alkindi®.

Chronocort®: clear regulatory path in Europe and US

Diurnal's second product candidate, Chronocort®, provides a drug release profile that the Group believes better mimics the body's natural cortisol circadian rhythm, which current therapies are unable to replicate, and is designed to improve disease treatment for adults with CAH, as measured by androgen (male sex hormone) control.

During the year, the Group completed its European pivotal Phase III clinical trial of Chronocort® for the treatment of CAH in adults, with a total of 122 patients enrolled across 11 clinical sites, the largest interventional study conducted to date in this patient population. Patients completing treatment in this study had the option to enrol into a long-term safety extension study, assessing the impact of treatment with Chronocort® over an extended period, regardless of whether the patients were initially treated with Chronocort® or standard of care. A significant proportion of patients eligible to enter the follow-on study did so, and patient retention rates in this study have been high to date.

In October 2018, Diurnal announced that, whilst Chronocort® had been able to demonstrate 24-hour control of androgens in the Phase III trial, it did not meet the primary endpoint of superior control throughout the 24-hour period compared to conventional glucocorticoid therapy. Subsequently, Diurnal performed a detailed analysis of the study data, identifying important differences between Chronocort® and the control arm of the trial based upon a number of clinical parameters.

US and Europe opportunity in CAH and paediatric AI

$400m

Alkindi® revenues in 2019

£1m

"During the year, Diurnal has continued to optimise market access for its products outside of key European markets and the US."

Chronocort®: clear regulatory path in Europe and US continued

Diurnal also analysed interim data from the ongoing safety extension study; notably, a number of patients on the safety extension trial have been treated for at least 30 months and show sustained benefit from extended Chronocort® treatment, consistent with feedback from the study investigators in this open-label trial. Based on these findings, Diurnal held a scientific advice meeting with the EMA in Q2 2019, which confirmed the existing clinical and regulatory path for Chronocort®. Diurnal, therefore, expects to file an MAA for Chronocort® in Q4 2019.

As part of the MAA submission, Diurnal intends to file for the use of Chronocort® for adolescent CAH patients, providing the potential for seamless life-long treatment, with patients commencing treatment with Alkindi® and transitioning to Chronocort®. In parallel with the MAA submission, Diurnal will apply for Orphan Drug Status for Chronocort® in CAH, which requires Diurnal to demonstrate significant clinical benefit for Chronocort® compared to existing therapies.

Diurnal has also undertaken the necessary arrangements with the UK's Medicines and Healthcare products Regulatory Agency (MHRA) for potential separate UK regulatory submission, should the UK depart from the EU without a transitional arrangement.

Assuming the EMA approves Chronocort® for the treatment of CAH, Diurnal subsequently intends to submit a line extension in Europe for the treatment of AI, a much larger market opportunity, using existing clinical data, once the current Orphan Drug Designation for the product Plenadren® in the treatment of AI has expired.

The Group intends to use its commercial organisation and supply chain developed for Alkindi® for the planned future launch of Chronocort® in Europe. In addition, the pricing work undertaken for Alkindi® has provided insights into the cortisol deficiency market that will be extremely valuable when developing health economic arguments for Chronocort®.

Following discussions with the FDA during 2018, Diurnal designed a Phase III registration package for Chronocort® in the US, which would recruit up to 150 patients with CAH randomised to either receive Chronocort® twice daily or standard of care. Based upon the headline results from the European Phase III study, Diurnal paused this study while it reviewed the European data package. The design of the US study has now been optimised based on this new information. The study is expected to recommence once the Group has identified a development and commercialisation partner for Chronocort® in the US. Diurnal believes that the preparatory work undertaken for this study, including identification of key clinical sites, will substantially accelerate its recommencement once a US partner has been secured.

During the year, Diurnal also developed a Phase II study design to assess the utility of Chronocort® in AI, which represents a sizeable commercial opportunity in the US (potentially close to a $1bn market opportunity) with a highly favourable competitive landscape. Following the Chronocort® European Phase III study results, the AI study was paused in order to preserve cash. Subject to funding, Diurnal believes that this study is ready to commence, either in house or with the support of a US partner.

Maximising late-stage pipeline value

During the year, Diurnal continued to optimise market access for its products outside of Europe and the US, where the Group aims to maximise revenues from Alkindi® and Chronocort® by entering into distribution and/or licensing agreements. The Group seeks to access territories where there is the potential for a price which reflects the innovation for its products, and which can use the European or US regulatory dossiers as the basis for local regulatory submissions.

This approach is exemplified by Diurnal's agreements with Emerge Health for the marketing of Alkindi® and Chronocort® in Australia and New Zealand, and Medison for the marketing of Alkindi® and Chronocort® in Israel. During the year, Medison confirmed that the MAA for Alkindi® had been accepted for filing by the Israeli Ministry of Health and Emerge Health successfully obtained Orphan Drug Designation from the Therapeutic Goods Administration (TGA) in Australia. Just after the year end, Emerge Health successfully submitted an MAA for Alkindi® in Australia with approval anticipated around the middle of 2020.

Following the grant of the Group's first patents for Alkindi® and Chronocort® in Japan during 2018, Diurnal is continuing to assess its strategy for entry into this important market with a local partner. Japan is a well-developed pharmaceutical market, with Orphan Drug Designation and a large population, and is therefore an attractive market estimated at $397m for Diurnal's late-stage products for CAH and AI. Diurnal is also assessing the potential for the commercialisation of Alkindi® in China, where

it recently received notification of the grant of its patent for the product. The Chinese health authorities have recently prioritised the treatment of chronic paediatric diseases and China represents a large market opportunity for paediatric AI (including CAH), with patient numbers estimated to be at least twice the size of the European market.

Early-stage pipeline: targeting needs in endocrine diseases

Diurnal aspires to be a significant participant in the endocrinology field with a pipeline of therapies targeting multiple endocrine disorders where patient and clinical needs are underserved. Whilst Diurnal's primary focus is currently on bringing its late-stage cortisol deficiency pipeline to the market in Europe and the US and to expand these products into new indications and geographies, the Group's long-term plan is to expand into further endocrine disease areas, such as those associated with the thyroid, gonads and pituitary.

During the year, Diurnal has been focused on applying for government grants to assist the development of its early-stage pipeline whilst focusing resources on its late-stage pipeline. Feedback from these grant applications has been positive and highlights the significant unmet needs Diurnal is aiming to address.

During the year, Diurnal completed dosing of a Phase I proof-of-concept clinical study with DITEST™, its native oral testosterone therapy for the treatment of male hypogonadism (a market opportunity of close to $5bn). In this study, carried out in 24 hypogonadal men, the performance of DITEST™ has been assessed in terms of oral absorption of testosterone with or without a high fat meal and levels of by-products of metabolism, compared to oral modified testosterone undecanoate. The study is scheduled to read out during Q4 2019 and, if successful, Diurnal plans to enter partnering discussions for DITEST™ in order to maximise the value of this innovative treatment.

Diurnal's other early-stage pipeline products include a modified-release T3 replacement therapy for patients with hypothyroidism who do not respond to current standard of care (a potential market of $1bn in the US and Europe) and its novel siRNA therapy for Cushing's disease (a market opportunity of close to $0.5bn), a condition characterised by an excess of cortisol. In addition, Diurnal regularly assesses third party products for endocrine disorders that fit within its strategic vision.

Further strengthening of in-market exclusivity

Diurnal's pipeline of product candidates for cortisol deficiency is protected by an extensive patent portfolio, benefiting from granted or pending patents in key jurisdictions, along with strong protection through Orphan Drug Designations.

During the year, a second US patent was granted for Chronocort® and a second patent for Alkindi® was granted in Japan. These granted patents provide in-market protection for both Alkindi® and Chronocort® to 2034. The Group expects to continue to expand patent coverage for its products in the future, further strengthening its in-house patent portfolio.

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. The FDA has granted Chronocort® Orphan Drug Designation in the treatment of both CAH and AI and has granted Alkindi® Orphan Drug Designation in the treatment of paediatric AI, providing seven years of market exclusivity in the US assuming Orphan Drug Status is granted upon the expected approval of these products. In Europe, the paediatric use marketing authorisation (PUMA) for Alkindi® affords ten years of data and market exclusivity, whilst Chronocort® benefits from separate Orphan Drug Designations for both CAH and AI.

Outlook

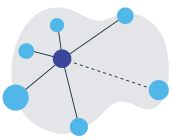
Following the positive scientific advice meeting with the EMA, Diurnal anticipates submitting an MAA for Chronocort® during Q4 2019. If approved by the EMA, the product will join Alkindi® to enlarge the Group's commercial cortisol replacement therapy franchise. This should further enable Diurnal to build a strong and profitable European business through penetration of the combined addressable market for the treatment of CAH and paediatric AI which is estimated by the Group to be worth over $300m in Europe alone.

Diurnal also expects additional progress for Alkindi®, with further country launches in Europe scheduled during H2 2019 to accelerate growth of revenues, along with a planned NDA submission in the US during Q4 2019. Diurnal has received strong interest in Alkindi® and Chronocort® for the US and will continue to progress licensing discussions, including the potential for co-development of Chronocort® in the US, both in CAH and AI. The US remains an important market for Diurnal's late-stage products, with a combined market size for the treatment of CAH and paediatric AI estimated at $125m, and a future expansion opportunity in adult AI, which represents a close to $1bn market opportunity in the US.

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.

Martin Whitaker
Chief Executive Officer
23 September 2019

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

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 57,000 patients across Europe (41,000) and the US (16,000), with approximately 405,000 in the rest of the world.

The European and US markets are estimated to be worth a combined amount annually in excess of

$400m

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 297,000 sufferers in Europe and 154,000 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 $4.8bn.
+ There is some controversy over the risks and benefits in replacing testosterone in older men (including the potential for cardiovascular disease).

$4.8bn

estimated value of hypogonadism market

Hypothyroidism

+ Hypothyroidism is 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 worldwide opportunity

The focus of Diurnal's late-stage pipeline is diseases of cortisol deficiency, which have approximately the same prevalence around the world. Consequently, Diurnal envisages a substantial opportunity for future growth in bringing its valuable treatments, Chronocort® and Alkindi®, to patients across the globe.

Outlook for 2020 financial year

+ Continued roll-out of Alkindi® across Europe, with planned launches in Italy, Spain, Norway, Finland, Iceland and the Netherlands.
+ Potential approval of Alkindi® in Israel and Australia for its distribution partners, Medison and Emerge Health respectively.
+ Planned US NDA submission for Alkindi® and continued discussions with potential US partners for Alkindi® and Chronocort®.
+ Development of regulatory strategy for Japan and initiation of partnering discussions.
+ Pursuit of licensing or distribution deals in other territories that are able to accept the European regulatory dossier for Alkindi® and which will support reimbursement for innovative new products.

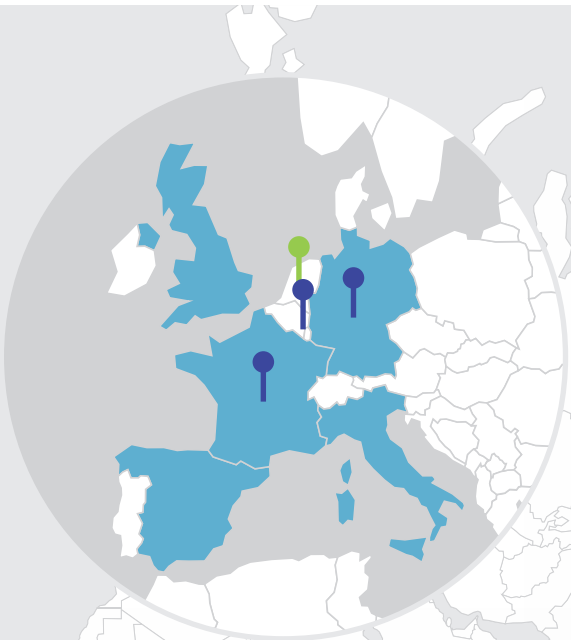
US

Following confirmation of the regulatory path for Alkindi® by the US FDA, Diurnal is actively discussing partnerships for Alkindi® and Chronocort® in the US.

$1.1bn

market opportunity[1]

1. Combined congenital adrenal hyperplasia (CAH) and adrenal insufficiency (AI) opportunity.



Robust product supply chain

Diurnal has established a supply chain within the EU that is able to serve global markets, with primary manufacturing in Germany, packaging in France and distribution from the Netherlands.

Distribution

Manufacturing

Japan

Japan represents a significant opportunity for Diurnal's late-stage products, with a well-developed market and Orphan Drug Designation.

$397m

market opportunity

Europe

Diurnal has set up direct sales and marketing infrastructure in major European markets, initially for Alkindi® and subsequently for Chronocort®, supplemented by geographic distribution partners where appropriate, e.g. Frost Pharma in the Nordics.

$2.1bn

market opportunity[1]

China

Diurnal is exploring the potential for Alkindi® in China, following the recent grant of its patent for the product.

Future potential

Rest of world

Diurnal already has valuable distribution agreements in place in Israel (Medison) and Australia and New Zealand (Emerge Health) and anticipates further regional deals in the future.

>$16m

market opportunity

Our dynamic business model

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

INPUTS

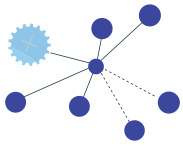
Diurnal employees

+ 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.

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.

OUR PROCESS



1.

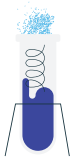
Development

+ Regulatory
+ Clinical operations
+ Medical monitoring
+ Statistics

2.

Commercial

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



3.

Manufacturing

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

Our strengths

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.

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.

Clinical development
Diurnal has built an extensive international network of endocrinologists which it uses to identify key unmet patient needs, provide input into its clinical development plans and treat patients enrolled into its clinical studies.

Our strategy moving forward

STAKEHOLDER VALUE

Customers

+ Provide cost-effective treatments that deliver significant benefits to patients in areas of high unmet need.

Shareholders

+ Build a valuable commercial franchise that is able to deliver long-term value to the Company's shareholders and communicate progress transparently to the financial markets.

Suppliers and partners

+ Engage in stable, long-term relationships that facilitate delivery of a high-quality service to the Group whilst providing suppliers and partners with confidence to invest in their relationship with Diurnal.

Employees

+ Provide a rewarding work environment and enable individuals to grow and develop their skills.

Clinicians

+ Undertake high-quality clinical research in a transparent way, to further knowledge in rare endocrine disease, including timely publication of all clinical trial dates.

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.

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

+ Complete regulatory submissions for Chronocort® in Europe and Alkindi® in the US.
+ Successfully commercialise Alkindi® in key European markets.
+ Expand the Group's commercial capability with Chronocort® in Europe.
+ Enter into strategic collaborations for Alkindi® and Chronocort® in the US.
+ Complete Phase III trials for Chronocort® (with a partner) in the US.
+ Maximise revenues in the rest of world through local distribution agreements.
+ Raise further funding, through the issue of new equity and/or non-dilutive financing 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 Group's revenue growth

"Diurnal expects a series of country launches during the remainder of 2019 that will continue to provide revenue growth."

Revenues and gross margin

The Group launched Alkindi® in Germany in May 2018 and in the UK in September 2018. Total revenues recorded for the year were £1,044k (2018: £73k), which is net of provisions for stock placed into the wholesale distribution chain on a sale-or-return basis.

The roll-out of Alkindi® has been impacted by the unpredictability of timing of pricing discussions, which are conducted on a country-by-country basis, by activities required to prepare for Brexit (including the establishment of a subsidiary company within the EU and securing the required licences and authorisations) and the impact of the Falsified Medicines Directive. Nevertheless, the Group expects a series of country launches during the remainder of 2019 that will continue to provide strong revenue growth for Alkindi® and the Group's supply chain is now fully prepared for the UK's eventual departure from the EU.

Gross margin for the year was 79% (2018: 79%). As Alkindi® sales volumes grow, the Group expects to be able to realise margin improvements through manufacturing efficiencies.

Operating expenses

Research and development (R&D) expenditure for the year was £8.7m (2018: £10.0m). Expenditure increased significantly in the first half of the year as the Group undertook activities to initiate the Chronocort® US Phase III trial, in addition to completing the Chronocort® Phase III registration trial in Europe and transitioning patients completing this study into the European long-term follow-on study. Following the Chronocort® European Phase III trial read-out in October 2018, the US clinical studies were put on hold, in order to reassess the study designs and also to extend the cash runway. Consequently, R&D expenses were significantly lower in the second half of the financial year.

R&D expenditure in the consolidated income statement is net of capitalised development costs for Alkindi® in Europe of £37k (2018: £15k). The Group continues to expense development costs relating to the separate development programme for Alkindi® in the US, and for Chronocort® development.

Administrative expenses for the year were £6.7m (2018: £6.8m). Expenses in the year included a credit of £0.6m relating to the release of a provision for employer's National Insurance contributions on share option exercises, reflecting the fall in the share price following the announcement of the Chronocort® Phase III clinical trial headline data in October 2018. Following this announcement, a number of cost-saving measures were implemented. The impact of these cost-saving measures offset continued investment in the launch of Alkindi® across Europe.

Operating loss

Operating loss for the year reduced to £14.5m (2018: £16.8m), reflecting the cost-saving measures outlined above and increased revenues.

Financial income and expense

Financial income in the year was £130k (2018: £95k) despite lower average cash balances compared to the previous year, largely reflecting the Group's decision to hold a portion of its cash balances in US Dollars which benefited from a higher interest rate.

Financial expense for the prior year of £221k largely comprised the non-cash financial expense of the convertible loan, which was converted into shares at the time of the Group's fundraising in April 2018.

Loss on ordinary activities before tax

Loss before tax for the period was £14.4m (2018: £16.9m).

Tax

The current year includes the estimated research and development tax credit claim in respect of the year ended 30 June 2019 of £2,105k, which has not yet been submitted to HMRC, along with an additional £3k in respect of the year ended 30 June 2018 following submission and payment of the claim. 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

Basic loss per share was 19.7 pence (2018: 26.8 pence).

Cash flow

Net cash used in operating activities was £13.7m (2018: £12.8m). The operating cash outflow was significantly reduced in the second half of the year, reflecting the Chronocort® US development being placed on hold and the cost-saving measures outlined above.

Net cash from investing activities was £0.1m (2018: £11.1m). The prior year balance reflects the movement of all longer-dated held to maturity financial assets to short-dated cash and cash equivalents resulting from 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 from financing activities during the year was £5.5m, reflecting the net proceeds of the placing and open offer completed in June 2019. Net cash from financing activities in the prior year of £9.9m reflects the net proceeds of the placing completed in April 2018.

Balance sheet

Total assets decreased to £13.5m (2018: £22.5m), largely reflecting the utilisation of cash in operating activities highlighted above, partly offset by the placing and open offer completed in June 2019.

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. Total stock at the year end increased substantially to £672k (2018: £123k), largely reflecting manufacturing batches in progress to support the planned country launches for Alkindi® in the second half of 2019.

The Group also has trade receivables arising from the sale of Alkindi® to wholesalers and distribution partners; at the year end, trade receivables amounted to £510k (2018: £77k). Trade receivables are expected to reduce significantly as a proportion of revenues in future, once initial extended credit terms revert to normal credit terms.

Cash and cash equivalents were £9.1m (2018: £17.3m). Total liabilities decreased to £2.5m (2018: £5.7m), reflecting the reduced level of operating activities in the second half of the financial year noted above.

Financial outlook

Following the cost reduction measures outlined above and the net proceeds from the placing and open offer completed in June 2019, Diurnal expects its cash resources to last until at least Q2 2020 based upon current planned expenditure which is focused on submission of marketing authorisation applications for Chronocort® in Europe and Alkindi® in the US and continued development of the European commercial organisation and roll-out of Alkindi® together with ongoing licensing discussions. Diurnal believes that submission of the marketing authorisation applications planned for Q4 2019, are key steps in the implementation of the Group's strategic plans that will support future financing activities. In addition, the Group is encouraged by US interest in its late-stage pipeline, which provides an opportunity to generate non-dilutive income, including potential for signature fees, milestone payments and development cost funding.

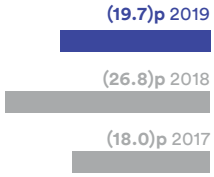
Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the Strategic Review on page 21 and 22.

Richard Bungay
Chief Financial Officer
23 September 2019

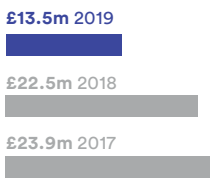
Loss per share

(19.7)p
(-26%)



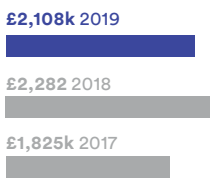
Total assets

£13.5m
(-40%)



Tax credit

£2,108k
(-8%)



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. The Group operates a comprehensive risk register, overseen by the Audit Committee, which has a number of key objectives:

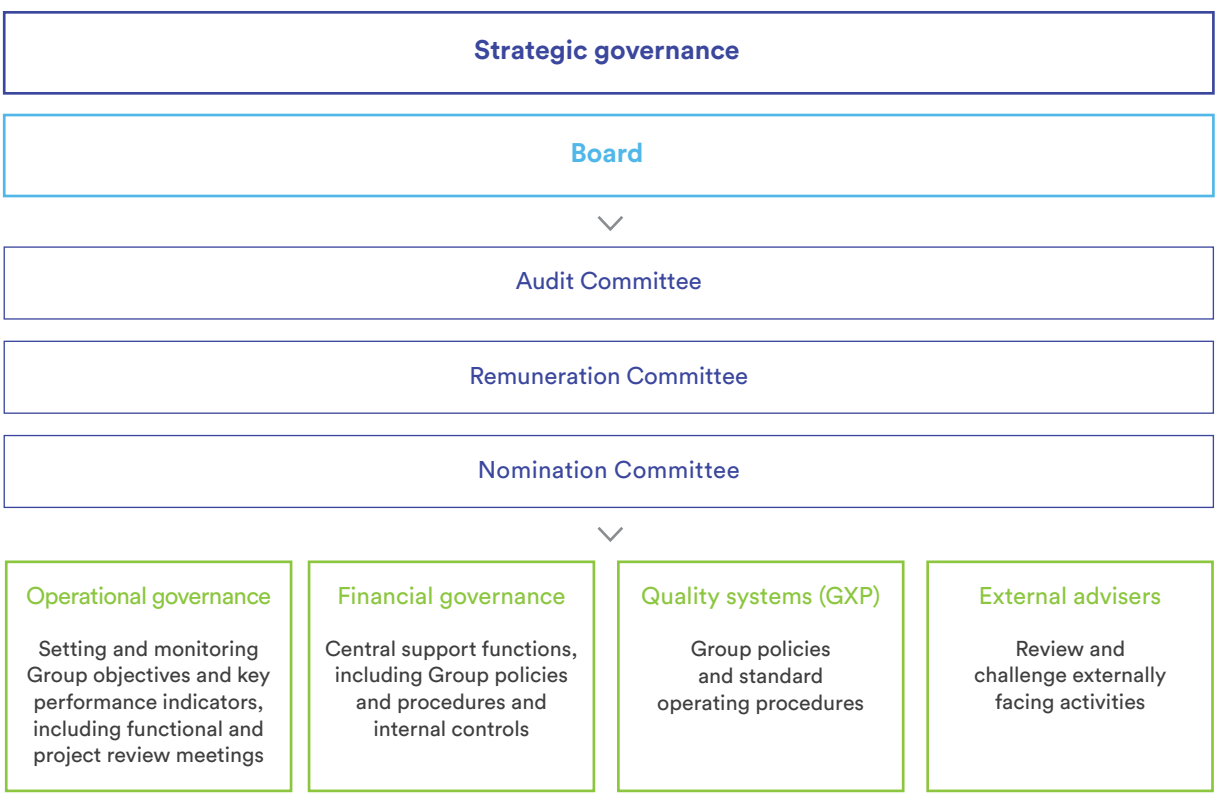
+ to confirm and communicate key risks facing the Group;
+ to establish and promote the importance of risk management across the Group;
+ to establish a methodology for assessment of risk and to ensure those risks assessed as having a higher level of impact are proactively managed; and
+ to assign responsibility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



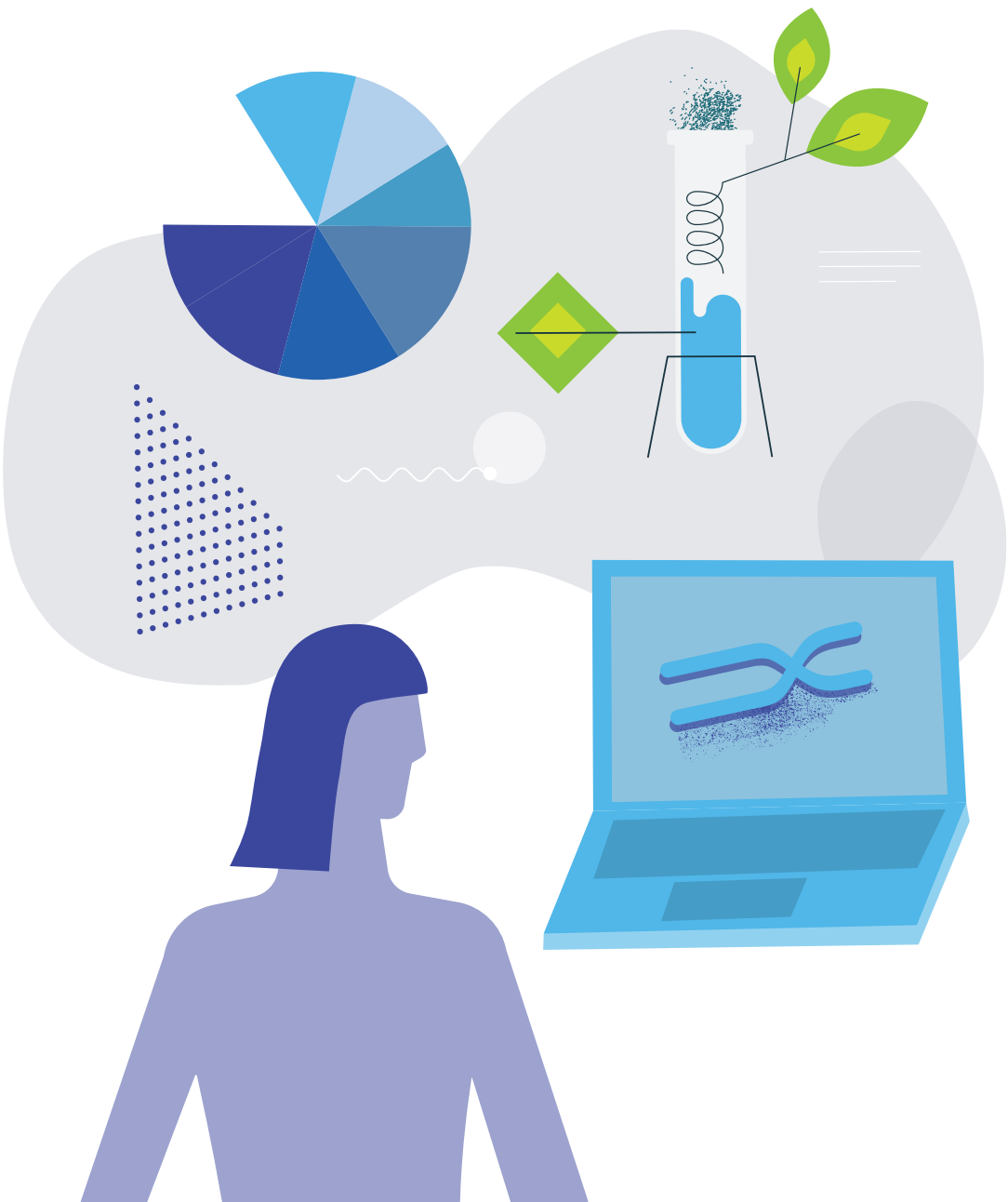
Risk description	Change	Key mitigation
Approval of products	^ Failure to meet primary endpoint in Chronocort® European Phase III study increases risk of non-approval.	The Group will utilise its experience from the successful registration of Alkindi® in Europe for the planned regulatory submissions for 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. The Group has also obtained scientific advice from regulators in order to identify and manage potential issues ahead of making regulatory submissions.
Ability to find partner for major territories outside Europe	^ Increased reliance on US partner to assist in running Chronocort® US development programme.	The Group will leverage the experience both of its team and external consultants to ensure it is engaged with appropriate organisations for potential future partnering deals, including a presence at key conferences. The Group maintains a high-quality partnering package with all key data to ensure partners receive the data they need to assess opportunities on a timely basis.
Delays in clinical study enrolment	v Limited clinical trials envisaged to be conducted by Diurnal during the next financial year.	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.
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	^ Failure to meet primary efficacy endpoint with Chronocort® in Europe.	Both Alkindi® and Chronocort® Phase III programmes include follow-on studies designed to assess the 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. In addition, obtaining Orphan Drug Status is an important component of the Group's pricing strategy for Alkindi® in the US and Chronocort® in Europe. Diurnal is required to demonstrate significant clinical benefit compared to existing therapies in order to translate the current Orphan Drug Designations for Alkindi® and Chronocort® into Orphan Drug Status.

Risk description	Change	Key mitigation
Significant exchange rate movements	Limited US activity envisaged to be conducted by Diurnal during the next financial year.	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 net expenditure or income in Euros and US Dollars. Over time, revenues from planned product launches in Europe and – subsequently – the US should provide a natural hedge for operating expenses.
Disruption of product supply		The Group currently has a single source of supply for both Alkindi® and Chronocort® capsules. Alkindi® and Chronocort® are both currently at a scale of production that will support the early years following launch. 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	A number of key patents have been granted during the year.	Notification of grant has been received for key patents for Alkindi® and Chronocort® in the US and for Alkindi® and Chronocort® in Japan. The Group continues to prosecute patents for both Alkindi® and Chronocort® globally.
Distribution of products	Changes made to the supply chain to manage future trading arrangements with the EU.	The Group's supply chain is entirely within the Eurozone in order to minimise customs, duty and VAT risks arising from the movement of goods. Diurnal has established a wholly owned subsidiary in the Netherlands (Diurnal Europe B.V.) which holds the European marketing authorisation and a Wholesaler Dealer Licence to enable distribution of products within the EU post Brexit. The Group uses a contractor's satellite warehouse at Heathrow Airport to manage movement of product into the UK.
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	Sectoral asset allocation changes and operational issues in some UK funds have led to a more challenging funding environment.	The Group will require significant further funds in order to reach profitability. The Group successfully completed a £5.9m fundraising during the financial year and continues to manage its existing cash resources carefully, ending the 2018/19 financial year with cash and cash equivalents of £9.1m. The Group meets regularly with new and existing investors to ensure the equity story is well understood and also assesses non-dilutive financing options, such as venture loans. 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 an updated 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.

This Strategic Report was approved by the Board on 23 September 2019 and signed on its behalf by

Richard Bungay
Chief Financial Officer

CORPORATE GOVERNANCE



An experienced team

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 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 current 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 over 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® through a pivotal Phase III clinical trial. Previously, Martin worked with 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 current 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 25 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 current roles
Director of Chroma Therapeutics Limited.

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, the Growth Hormone Research Society and the Pituitary Society.

Other current roles
Director of Asterion Limited.

John Goddard, BA FCA MCT

Independent Non-Executive Director

Appointed
6 November 2015[1]

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

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

Sam Williams, MA PhD

Non-Executive Director
Board representative of IP Group plc

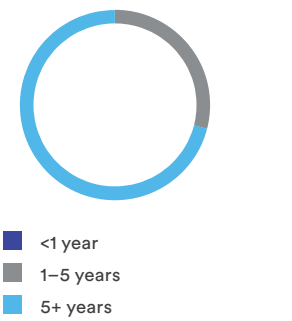
Appointed
29 October 2014[1]

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 Istesso Ltd, a drug discovery company focused on novel treatments for autoimmune and inflammatory conditions. As well as being Executive Chairman of Istesso, Sam is Head of Life Sciences at the FTSE 250 company IP Group plc. Sam has a PhD in Molecular Biology from Cambridge University and an MA in Pure and Applied Biology from Oxford University.

Other current roles
Non-Executive Chairman of Microbiotica Ltd and Iksuda Ltd.

Board of Directors skills breakdown

Board of Directors tenure



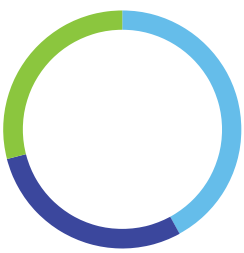
1. Appointed initially as a Director of Diurnal Limited; upon creation of the parent company immediately prior to its IPO in December 2015, appointed to the Board of Diurnal Group plc on 1 December 2015.

A strong governance culture

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended 30 June 2019. 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 2019.

Board membership



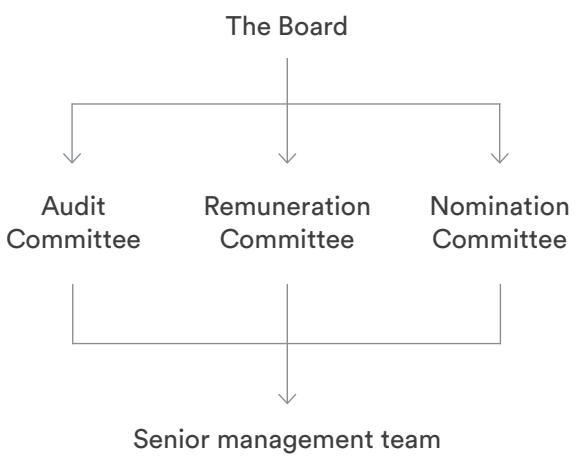
- Executive Director
- Non-Executive Director
- Independent Non-Executive Director

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 2019
+ John Goddard (Chairman)
+ Peter Allen
+ Alan Raymond

Meetings held in 2019
Three

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 2019
+ Peter Allen (Chairman)
+ John Goddard
+ Alan Raymond
+ Sam Williams

Meetings held in 2019
One

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 2019
+ Alan Raymond (Chairman)
+ John Goddard
+ Peter Allen
+ Sam Williams

Meetings held in 2019
Two

Adoption of the QCA Code

Diurnal has adopted the QCA Corporate Governance Code (the "QCA Code") as it considers that this is the most suitable framework for smaller listed companies. 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 16
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 our website, www.diurnal.co.uk
4. **Embed effective risk management, considering both opportunities and threats, throughout the organisation**
   See "Principal risks and risk management" on page 20

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 24
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 24 and 25. Two of the Directors are considered by the Board to be independent: Peter Allen (Chairman) and John Goddard (Senior Independent Director). Peter Allen and John Goddard participate in the Company's historical 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; experience of business development, including structuring, negotiating and executing licensing deals; 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 also convenes 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 licensing deals;
+ 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 the 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 2018/19 financial year was as follows:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Meetings	Attended	Meetings	Attended	Meetings	Attended	Meetings	Attended
Executive								
Martin Whitaker	6	6	—	—	—	—	—	—
Richard Bungay	6	6	—	—	—	—	—	—
Richard Ross	6	6	—	—	—	—	—	—
Non-Executive								
Peter Allen	6	6	3	3	2	2	1	1
John Goddard	6	6	3	3	2	2	1	1
Alan Raymond	6	5	3	3	2	2	1	1
Sam Williams	6	6	—	—	2	2	1	1

The Board reviews and considers the attendance record and commitment of each Non-Executive Director to ensure that they devote enough time to the Group's affairs. No issues have arisen during the year.

Board performance evaluation

The Board has a process for evaluation of its own performance and that of its Committees and individual Directors, including the Chairman. The Board has completed an effectiveness evaluation tool during the year 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. Peter Allen and John Goddard are qualified Chartered Accountants and have significant experience gained in senior financial management positions and as Non-Executive Directors and audit committee members and chairmen.

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses, in particular, on compliance with accounting policies and ensuring that an effective system of audit and financial control is maintained, including considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors and advising on the appointment of external auditors.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half yearly reports remains with the Board. The Audit Committee also focuses on risk management processes within the Group and 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.

The Audit Committee met three times during 2018/19, to:

+ review the audit arrangements, review the tender process and appoint new auditors, PricewaterhouseCoopers LLP;
+ review the audit strategy and plan for the 2017/18 full year results;
+ review the 2017/18 final results prior to their submission for approval to the full Board;
+ review the 2018/19 interim results prior to their submission for approval to the full Board; and
+ review the audit strategy and plan for the 2018/19 full year results.

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

Board Committees continued

Audit Committee (including the Audit Committee Report) continued

Any non-audit services that are to be provided by the external auditors are reviewed in order to safeguard auditor objectivity and independence. During the year the Committee considered the external auditors' 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 auditors have 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 32 to 36.

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

Nomination Committee

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

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

Share Dealing Code

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

Internal controls

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide reasonable assurance that the Group's assets are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and regulatory compliance areas, together with risk management. The principal risks and uncertainties for the Group are set out on pages 21 and 22 of this Annual Report. The Group maintains a risk register, which is reviewed and updated regularly. Each potential risk across the Group will be assessed against the likelihood of occurrence and the impact on the business, should the risk be realised.

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

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

Employment 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 are 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 21 November 2019 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
23 September 2019

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:

+ take into account 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;
+ are designed to 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 (including the share price performance) and the individual, skill set and experience and external indicators such as salaries in comparable companies and inflation.

Reflecting the Group's progress during the 2017/18 financial year into the commercialisation phase, base salaries were increased towards a mid-market position for comparable companies. In light of the substantial fall in the Group's share price during the 2018/19 financial year, following the announcement of the Chronocort® European Phase III data in October 2018, the Board considers it appropriate to award an inflation-only increase to Executive Directors. Accordingly, with effect from 1 July 2019 the base salary of Martin Whitaker, Chief Executive Officer, was increased to £255,000 and the base salary of Richard Bungay, Chief Financial Officer, was increased to £204,000.

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. For the 2017/18 and 2018/19 financial years the Remuneration Committee decided that any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: 50% cash and 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. 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 2018/19 financial year included clinical (Chronocort® development in the US and Europe), commercial (Alkindi® revenues) and financial milestones and have plan and stretch components. The Remuneration Committee has determined that a bonus of 35% of the maximum potential bonus should be paid in respect of the 2018/19 financial year, reflecting the impacts arising from the failure to meet the primary efficacy endpoint for the European Chronocort® Phase III clinical study during the bonus year. The performance criteria for the 2019/20 financial year include clinical (Chronocort® development in Europe), business development (Alkindi® and/or Chronocort® licensing), commercial (Alkindi® revenues) and financial milestones and have plan and stretch components.

Long Term Incentive Plan (LTIP)
The primary long-term incentive arrangements 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 were historically set at a value of 100% of base salary for the Chief Executive Officer and 75% for the Chief Financial Officer. Reflecting the substantial fall in the Group's share price during the 2018/19 financial year, and in order to avoid excessive dilution for shareholders, the awards made to the Chief Executive Officer and Chief Financial Officer during the 2018/19 financial year were set at a value of 25% of base salary. The Board anticipates retaining flexibility when setting the level of future performance share awards in order to balance the appropriate incentivisation of senior management with shareholder dilution. 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 ended 30 June 2018, 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 has implemented an employee benefit trust (EBT) during the year. Reflecting this, it is intended that all future deferred bonus share awards and performance 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 or an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant).

The Group 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 subscription for shares as part of placings, in-market purchases and 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	1 December 2015	12 months
Richard Bungay	18 January 2017	6 months
Richard Ross[1]	1 December 2015	3 months
Non-Executive		
Peter Allen	1 December 2015	3 months
John Goddard	1 December 2015	3 months
Alan Raymond[2]	1 December 2015	3 months
Sam Williams[3]	1 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 Development Bank of Wales plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%.
3. Director nominated by the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%.

Directors' remuneration (audited)

The remuneration of the Directors who held office during the periods ended 30 June 2019 and 2018 was as follows:

Name	Basic salary and fees £000	Bonus £000	Benefits £000	Total emoluments 2018/19[5] £000	Pension contributions 2018/19 £000	Total emoluments 2017/18 £000	Pension contributions 2017/18 £000
Executive							
Martin Whitaker[1]	**213**	**88**	**1**	**302**	**22**	333	20
Richard Bungay	**200**	**53**	**2**	**255**	**20**	256	17
Richard Ross[2]	**—**	**18**	**—**	**18**	**—**	35	—
Non-Executive							
Peter Allen	**50**	**—**	**—**	**50**	**—**	50	—
John Goddard[3]	**30**	**—**	**—**	**30**	**—**	15	—
Alan Raymond	**29**	**—**	**—**	**29**	**—**	29	—
Sam Williams[4]	**29**	**—**	**—**	**29**	**—**	29	—
	551	**159**	**3**	**713**	**42**	747	37

1. Following the announcement of the unexpected Chronocort® European Phase III data in October 2018, the Chief Executive Officer waived 20% of his base salary from 1 October 2018 until 30 June 2019.
2. 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.
3. John Goddard has elected to take part of his annual fee as shares, which are issued quarterly in arrears based upon the average share price for the quarter then ended. His current annual fee is £30,000, of which £15,000 is paid in cash and £15,000 in shares.
4. 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%.
5. Total emoluments for 2018/19 include the bonus payable in relation to the 2018/19 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 2019, are nil cost options and were as follows: Martin Whitaker: 143,443 shares; Richard Bungay: 86,066 shares; and Richard Ross: 30,256 shares.

Directors' share options and awards (audited)

Directors holding office at 30 June 2019 had the following options outstanding over ordinary shares:

Date of grant/award	Exercise price	At 1 July 2018	Granted in the year	Exercised	Lapsed	At 30 June 2019	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**	Vested
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
5 July 2018 deferred bonus share award	£nil	—	35,580	—	—	**35,580**	5 July 2019
4 November 2018 performance share award	£nil	—	255,105	—	—	**255,105**	4 December 2023
		1,201,531	290,685	—	—	**1,492,216**	
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
5 July 2018 deferred bonus share award	£nil	—	22,682	—	—	**22,682**	5 July 2019
4 November 2018 performance share award	£nil	—	204,083	—	—	**204,083**	4 December 2023
		499,557	226,765	—	—	**726,322**	
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**	Vested
5 July 2018 deferred bonus share award	£nil	—	9,381	—	—	**9,381**	5 July 2019
4 November 2018 performance share award	£nil	—	71,743	—	—	**71,743**	4 December 2023
		1,349,000	81,124	—	—	**1,430,124**	
Non-Executive							
Peter Allen							
23 September 2015 option grant	£0.002	69,000	—	—	—	**69,000**	Vested
12 April 2016 option grant	£0.002	104,421	—	—	—	**104,421**	Vested
		173,421	—	—	—	**173,421**	
John Goddard							
12 April 2016 share award	£0.05	10,792	—	(10,792)	—	**—**	Vested
		10,792	—	(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).

Directors' share options and awards (unaudited)

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.

Three Directors (2018: three Directors) received shares under long-term incentive plans in respect of their qualifying services.

The aggregate amount of gains made by Directors on the exercise of share options during the year was £1,889 (year ended 30 June 2018: £117,661).

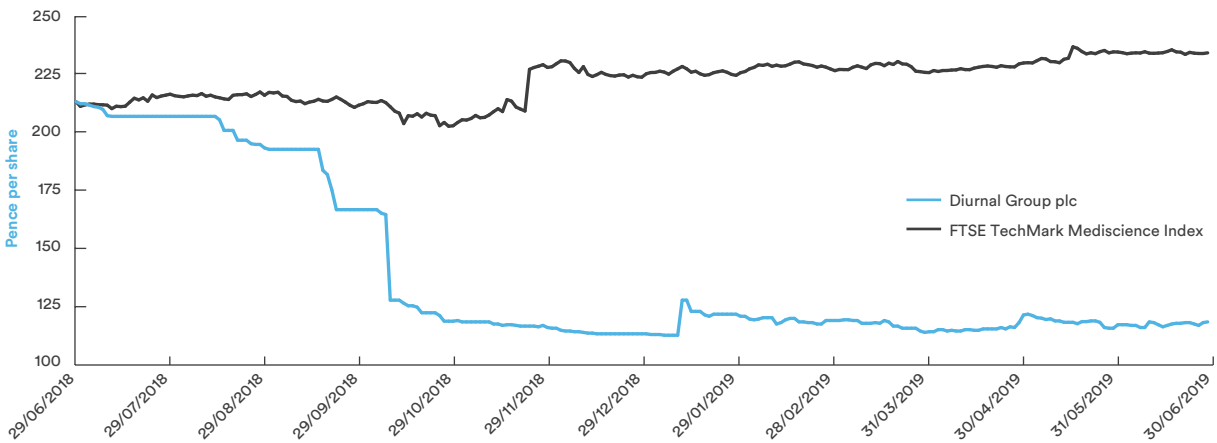
All share options have a ten year life at the date of issue.

Directors' interests in the share capital of the Company as at the date of this report are shown in the Directors' Report on page 38.

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

At 30 June 2019 the market price of the Company's shares was 31 pence per share and the market capitalisation was approximately £26m.

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 2019. This chart highlights that Diurnal's share price underperformed the FTSE TechMark Mediscience Index by 86%.



On behalf of the Board

Alan Raymond
Remuneration Committee Chairman
23 September 2019

Introduction

The Directors present their report and the audited financial statements for Diurnal Group plc (the "Company") and its subsidiaries (together, the "Group") for the year ended 30 June 2019.

Principal activities

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 2019, the Group made an operating loss of £14.5m on revenue of £1.0m and used net cash in operating activities of £13.7m. Cash and cash equivalents at 30 June 2019 were £9.1m.

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 2020. Based on this, additional funding is expected to be required by the end of Q1 2020 to support the Group's and the Company's going concern status. Dependent upon the funds raised, and the level of income generated from licensing activities, further funding may be required to reach profitability.

The Group completed a £5.9m fundraising with existing and new investors in June 2019. The Directors have a reasonable expectation that the Group will be able to raise further financing, which could come from a variety of sources, to support its ongoing development and commercialisation activities, following the anticipated completion of marketing authorisation applications for Chronocort® in Europe and Alkindi® in the US, both expected in Q4 2019. 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 its late-stage pipeline outside of Europe. However, there can be no guarantee 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 Group does not successfully raise new financing, the Directors consider that the Group would be able to reduce expenditure on its development programmes, potentially extending the Group's cash resources to more than 12 months from the date of signing the financial statements.

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 £14.4m (2018: £16.9m). Further details are provided in the Financial Review. The Directors do not recommend payment of a dividend.

Research and development

During the year, the Group spent £8.7m (2018: £10.0m) in the continuing development of its product portfolio. Of this cost, £37k (2018: £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 and their details are set out on pages 24 and 25. All Directors served throughout the financial year and subsequent 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:

	23 September 2019	
Name	Ordinary shares of £0.05 each in Diurnal Group plc	% of issued share capital
Executive		
Martin Whitaker	**120,643**	**0.14**
Richard Bungay	**52,134**	**0.06**
Richard Ross	**1,564,806**	**1.85**
Non-Executive		
Peter Allen	**169,444**	**0.20**
John Goddard	**115,360**	**0.14**
Alan Raymond[1]	**66,849**	**0.08**
Sam Williams[2]	**52,248**	**0.06**

1. Director nominated by the Development Bank of Wales plc (DBW, formerly Finance Wales plc) shareholders under a relationship agreement with the Company while the shareholding exceeds 10%. DBW'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 34,410,147 shares.

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 £50 (2018: £3k). 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 19 to the financial statements.

Significant shareholdings

At 20 September 2019 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	34,410,147	40.7
Development Bank of Wales plc	11,534,888	13.6
Polar Capital	6,622,631	7.8
Richard Griffiths and controlled undertakings	5,238,052	6.2
Oceanwood Capital Management LLP	3,104,727	3.7

Statement of Directors regarding disclosure of information to auditors

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

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

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

Independent auditors

PricewaterhouseCoopers LLP were appointed as auditors following the 2018 Annual General Meeting and have expressed their willingness to continue in office. 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, London EC1A 4HD, on Thursday 21 November 2019 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 pages 73 to 76 of this report.

Events after the reporting date

Subsequent to the year end, the Group entered into an agreement with its manufacturing partner, Glatt Pharmaceutical services GmbH & Co. KG, for the procurement, installation and validation of a new capsuling machine to increase the capacity and decrease unit costs for Alkindi® and, in the event that it is approved for sale, Chronocort®. The financial commitments associated with this agreement are detailed in Note 22 to the financial statements.

On behalf of the Board

Richard Bungay
Company Secretary
23 September 2019

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with IFRSs as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

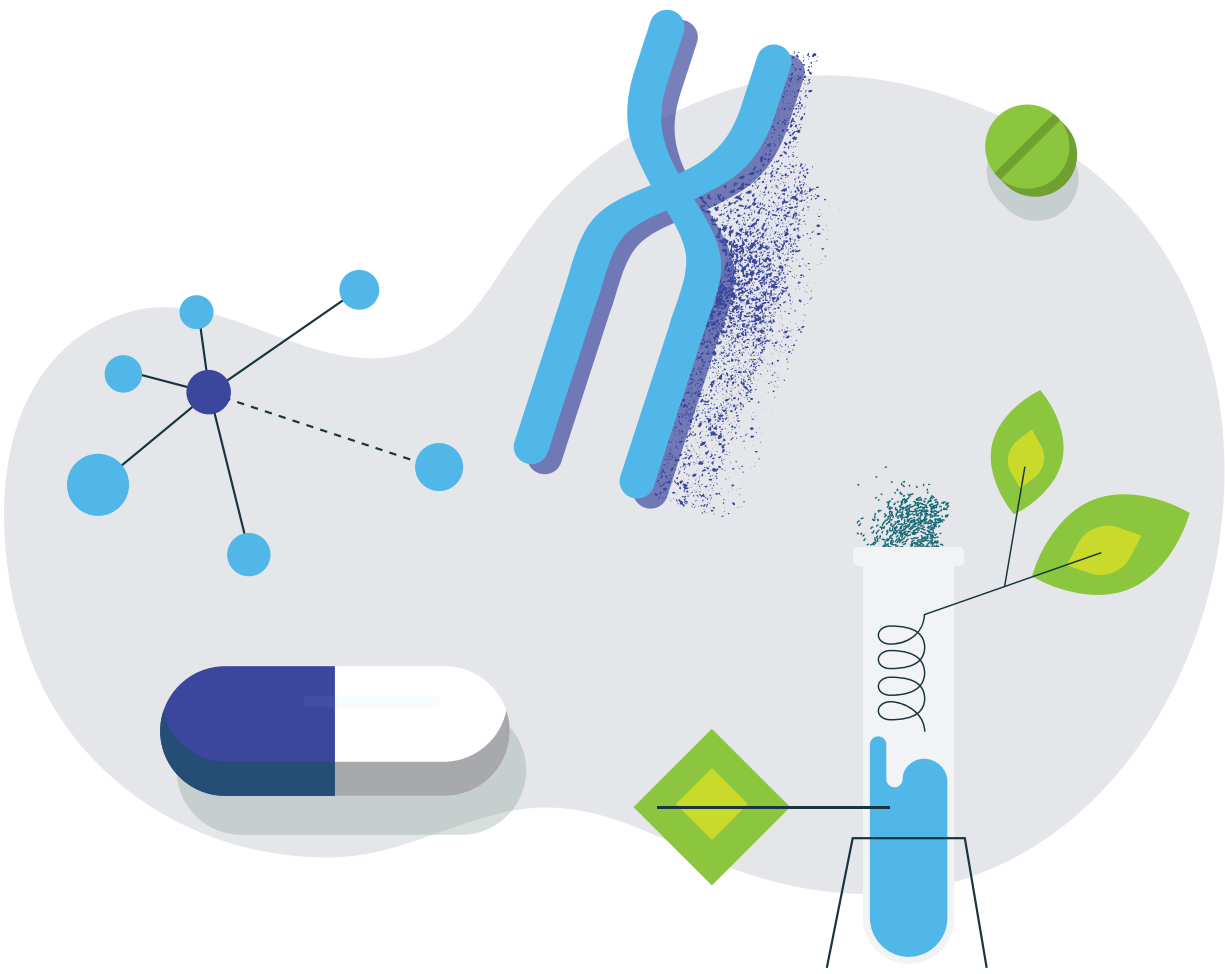
+ select suitable accounting policies and then apply them consistently;
+ state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
+ make judgements and accounting estimates that are reasonable and prudent; and
+ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FINANCIAL STATEMENTS



to the members of Diurnal Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Diurnal Group plc's Group financial statements and Company financial statements (the "financial statements"):

+ give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2019 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
+ have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
+ have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company balance sheets as at 30 June 2019; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company cash flow statements, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern – Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.4 to the financial statements concerning the Group's and Company's ability to continue as a going concern. The Directors believe that, based on existing cash facilities and on their current forecasts and plans for raising additional financing from new and existing investors, the Group and Company will have sufficient funds to meet their cash requirements for at least the next 12 months. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful. These conditions, along with the other matters explained in note 2.4 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

What audit procedures we performed

In concluding there is a material uncertainty, we examined the Group and Company cash flow forecasts for the 12 month period to 30 September 2020 and agreed that it is based on Board-approved budgets. The forecasts included certain assumptions as set out in note 2.4 to the financial statements. We tested these assumptions by performing the following audit procedures:

+ We tested the mathematical accuracy of the cash flow forecasts and we did not identity any exceptions in these tests.
+ We compared the current year actual results to forecast and noted that the actual results were in line with forecast, suggesting that management's forecasting has historically been accurate.

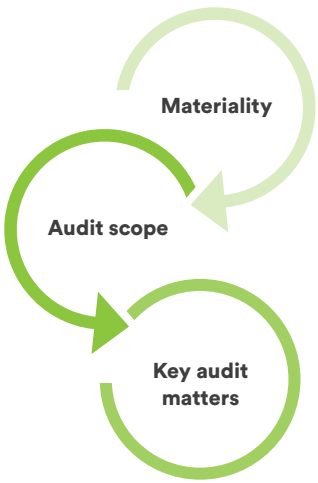
Report on the audit of the financial statements continued

What audit procedures we performed continued

+ We held discussions with management to understand any notable year-on-year changes in the forecasts, including the assumptions used in the forecasts, and to obtain an update on the sources of funding options being sought, as set out in note 2.4 to the financial statements and we considered whether there were additional risks that needed to be reflected in the forecasts. We used our understanding of the Group and the Company and industry to assess the possibility of such risks arising and their potential impact. We considered management's assumptions to be reasonable; however, at the time of the approval of the financial statements, we determined that there are no agreements for additional funding in place.

Our audit approach

Overview



+ Overall Group materiality: £729,000 (2018: £650,000), based on 5% of loss before tax.
+ Overall Company materiality: £352,000 (2018: £380,000), based on 1% of total assets.

+ The Diurnal Group has its finance function in one location, being the UK. The Group's head office is located in the UK where our work on the Group consolidation was performed.
+ In total, locations where we performed audit work accounted for 100% of the Group loss before tax for the year.

+ Impairment of investments and amount owed by subsidiary undertaking (parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

to the members of Diurnal Group plc

Report on the audit of the financial statements continued

Our audit approach continued
Key audit matters continued

Key audit matter	*How our audit addressed the key audit matter*
Impairment of investments and amount owed by subsidiary undertaking Given the Group's market capitalisation as at 30 June 2019 was £26.2m compared to investments of £15.4m and amounts owed by subsidiary undertaking of £38.9m, management has assessed that an impairment indicator exists. As a result, management performed an impairment assessment of these balances. An impairment assessment compares the carrying value to the recoverable amount, which is calculated as the higher of the value in use and the fair value less costs to sell. Management has performed a value in use calculation, based on its forecasts for the next five years. In the absence of other information, management has used the market capitalisation of the Company at 30 June 2019 as a proxy for the fair value less costs to sell. The recoverable amount using these calculations has indicated an impairment of the investment in the subsidiary company of £15.4m and an impairment of the amount owed by the subsidiary undertaking of £12.7m. There is complexity and judgement involved in calculating the valuation of the investments. The key judgement in regard to this balance is: + using market capitalisation as a proxy for fair value less costs to sell. The key estimate in regards to the value in use calculation is: + revenue growth over the next five years. Parent	We have performed the following procedures: Obtained management's value in use calculation and confirmed that the value was less than the fair value less costs to sell. Recalculated market capitalisation as at 30 June 2019. Assessed whether market capitalisation is appropriate and concluded that the exclusion of costs to sell and control premium in the fair value less costs to sell calculation was reasonable. Considered any post year-end movements in share price and concluded that none were indicative of conditions existing before year end and should thus be reflected in the year-end fair value less costs to sell calculation. We have confirmed the mathematical accuracy of the value in use model, confirmed the growth forecasts are in line with the Board-approved plan and that the growth assumptions are in line with IAS 36.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Following this assessment, we determined that we needed to focus our audit work at the Group's head office where we performed work over Diurnal Group plc and Diurnal Limited. Through discussions with the Group finance team, we obtained a full understanding of the operational activities of Diurnal Group plc and Diurnal Limited, and appropriately scoped the audit risks. This, together with additional procedures performed at the Group level over the consolidation process, gave us the evidence we needed for our opinion on the financial statements as a whole.

The financially significant component for the audit was Diurnal Limited as this was the only component that contributed more than 15% to loss before tax. We also performed audit work on Diurnal Group plc to the Group materiality level for cash and cash equivalents and total equity in order to ensure we had sufficient coverage over this financial statement line items from a Group perspective.

In total, locations where we performed audit work accounted for 100% of the Group loss before tax for the year.

Report on the audit of the financial statements continued

Our audit approach continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£729,000 (2018: £650,000).	£352,000 (2018: £380,000).
How we determined it	5% of loss before tax.	1% of total assets.
Rationale for benchmark applied	Whilst the Group has generated revenue in the year ended 30 June 2019 it is still loss making for the year. Given this and based on the benchmarks used in the Annual Report, we still believe that loss before tax is the primary measure used by the shareholders in assessing the financial performance of the Group, and is a generally accepted auditing benchmark.	The entity fulfils the role of the holding company within the Group. The entity's main function in the Group has historically been the raising of funds through equity issues to fund the Group's development activities and manage the Group's cash reserves. As such, we believe that total assets is the most appropriate measure to assess the financial position of the Company, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality used to audit the only significant component is £693,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £37,000 (Group audit) (2018: £32,500) and £18,000 (Company audit) (2018: £32,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

to the members of Diurnal Group plc

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
23 September 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2019

	Note	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Revenue	3	**1,044**	73
Cost of sales		**(224)**	(15)
Gross profit		**820**	58
Research and development expenditure		**(8,690)**	(10,024)
Administrative expenses		**(6,656)**	(6,813)
Operating loss	4	**(14,526)**	(16,779)
Financial income	6	**130**	95
Financial expense	7	**—**	(221)
Loss before tax		**(14,396)**	(16,905)
Taxation	8	**2,108**	2,282
Loss for the year		**(12,288)**	(14,623)
Basic and diluted loss per share (pence per share)	9	**(19.7)**	(26.8)

All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Loss for the year and total comprehensive loss for the year	**(12,288)**	(14,623)

as at 30 June 2019

	Note	2019 £000	2018 £000
Non-current assets			
Intangible assets	10	**49**	16
Property, plant and equipment	11	**33**	26
		82	42
Current assets			
Inventories	12	**672**	123
Research and development tax credit claims receivable	8	**2,105**	2,275
Trade and other receivables	14	**1,457**	2,818
Cash and cash equivalents	15	**9,147**	17,284
		13,381	22,500
Total assets		**13,463**	22,542
Current liabilities			
Trade and other payables	16	**(2,503)**	(5,661)
		(2,503)	(5,661)
Non-current liabilities			
Trade and other payables	16	**(16)**	—
		(16)	—
Total liabilities		**(2,519)**	(5,661)
Net assets		**10,944**	16,881
Equity			
Share capital	17	**4,226**	3,067
Share premium		**42,153**	37,769
Group reconstruction reserve		**(2,943)**	(2,943)
Other reserve		**—**	—
Accumulated losses		**(32,492)**	(21,012)
Total equity		**(10,944)**	16,881

These financial statements were approved by the Board of Directors on 23 September 2019 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

as at 30 June 2019

	Note	2019 £000	2018 £000
Non-current assets			
Investments	13	**—**	15,351
Amount owed by subsidiary undertaking	13	**26,204**	24,163
		26,204	39,514
Current assets			
Trade and other receivables	14	**65**	54
Cash and cash equivalents	15	**8,895**	17,021
Amount owed by employee benefit trust		**1**	—
		8,961	17,075
Total assets		**35,165**	56,589
Current liabilities			
Trade and other payables	16	**(242)**	(131)
Total liabilities		**(242)**	(131)
Net assets		**34,923**	56,458
Equity			
Share capital	17	**4,226**	3,067
Share premium		**42,153**	37,769
Other reserve		**—**	—
(Accumulated losses)/retained earnings		**(11,456)**	15,622
Total equity		**34,923**	56,458

The Company's loss for the year was £27,886k (2018: profit of £154k).

As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent company.

These financial statements were approved by the Board of Directors on 23 September 2019 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

for the year ended 30 June 2019

Group	Share capital £000	Share premium £000	Group reconstruction reserve £000	Other reserve £000	Accumulated losses £000	Total £000
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
Loss for the year and total comprehensive loss for the year	—	—	—	—	(12,288)	(12,288)
Equity settled share-based payment transactions	—	—	—	—	825	825
Issue of shares for cash	1,159	4,790	—	—	(17)	5,932
Costs charged against share premium	—	(406)	—	—	—	(406)
Total transactions with owners recorded directly in equity	1,159	4,384	—	—	808	6,351
Balance at 30 June 2019	**4,226**	**42,153**	**(2,943)**	**—**	**(32,492)**	**10,944**

Company	Share capital £000	Share premium £000	Other reserve £000	Retained earnings/ (accumulated losses) £000	Total £000
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
Loss for the year and total comprehensive loss for the year	—	—	—	(27,886)	(27,886)
Equity settled share-based payment transactions	—	—	—	825	823
Issue of shares for cash	1,159	4,790	—	(17)	5,932
Costs charged against share premium	—	(406)	—	—	(406)
Total transactions with owners recorded directly in equity	1,159	4,384	—	808	6,351
Balance at 30 June 2019	**4,226**	**42,153**	**—**	**(11,456)**	**34,923**

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 2019

	Note	Group		Company	
		Year ended 30 June 2019 £000	Year ended 30 June 2018 £000	**Year ended 30 June 2019 £000**	Year ended 30 June 2018 £000
Cash flows from operating activities					
(Loss)/profit for the year		**(12,288)**	(14,623)	**(27,886)**	154
Adjustments for:					
Depreciation, amortisation and impairment		**22**	14	**—**	—
Impairment loss on investment in subsidiary	13	**—**	—	**15,351**	—
Impairment loss on loan to subsidiary	13	**—**	—	**12,689**	—
Share-based payment	18	**825**	808	**825**	808
Net foreign exchange gain		**(10)**	(203)	**(25)**	(228)
Financial income	6	**(130)**	(95)	**(128)**	(94)
Finance expenses	7	**—**	221	**—**	219
Taxation	8	**(2,108)**	(2,282)	**—**	—
Increase in inventories		**(549)**	(123)	**—**	—
Decrease/(increase) in trade and other receivables		**1,361**	(1,535)	**(11)**	(38)
Increase in amount owed by subsidiary undertaking		**—**	—	**(821)**	(676)
(Decrease)/increase in trade and other payables		**(3,143)**	2,320	**110**	6
Cash (used in)/from operations		**(16,020)**	(15,498)	**104**	151
Interest paid		**—**	(2)	**—**	—
Tax received	8	**2,279**	2,737	**—**	—
Net cash (used in)/from operating activities		**(13,741)**	(12,763)	**104**	151
Cash flows from investing activities					
Additions of property, plant and equipment		**(25)**	(19)	**—**	—
Capitalisation of research and development expenditure		**(37)**	(15)	**—**	—
Purchases of held to maturity financial assets		**—**	(5,500)	**—**	(5,500)
Disposal of held to maturity financial assets		**—**	16,500	**—**	16,500
Loan to subsidiary undertaking		**—**	—	**(13,909)**	(12,565)
Interest received		**130**	107	**128**	106
Net cash from/(used in) investing activities		**68**	11,073	**(13,781)**	(1,459)
Cash flows from financing activities					
Net proceeds from issue of share capital		**5,526**	9,890	**5,526**	9,890
Net cash from financing activities		**5,526**	9,890	**5,526**	9,890
Net (decrease)/increase in cash and cash equivalents		**(8,147)**	8,200	**(8,151)**	8,582
Cash and cash equivalents at the start of the year		**17,284**	8,881	**17,021**	8,211
Effect of exchange rate changes on cash and cash equivalents		**10**	203	**25**	228
Cash and cash equivalents at the end of the year		**9,147**	17,284	**8,895**	17,021

1 Corporate information

The consolidated financial statements of Diurnal Group plc and its subsidiaries (collectively, the "Group") for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors on 23 September 2019. Diurnal Group plc (the "Company" or the "parent") is a public limited company incorporated and domiciled in the United Kingdom and registered in England and Wales (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 are translated at the rate ruling at the reporting date. Any foreign exchange gain or loss is recorded in other comprehensive income.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using actual 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.

Trade and other receivables

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

Trade and other payables

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

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.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Financial instruments

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

+ those to be measured subsequently at fair value (either through OCI or through profit or loss); and
+ those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

+ Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.
+ FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the statement of profit or loss.
+ FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

From 1 July 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounting policies applied until 30 June 2018

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 30 June 2018, the Group classified its financial assets in the following categories:

+ financial assets at fair value through profit or loss;
+ loans and receivables;
+ held to maturity investments; and
+ available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluated this designation at the end of each reporting period.

The measurement at initial recognition did not change on adoption of IFRS 9; see description above.

Subsequent to the initial recognition, loans and receivables and held to maturity investments were carried at amortised cost using the effective interest method. The Group and Company had no financial assets at fair value through profit or loss and no available-for-sale financial assets.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Financial instruments continued

Impairment

The Group assessed, at the end of each reporting period, whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Intangible assets

Research and development

Expenditure on development activities not directly attributable to an intangible asset is recognised in the consolidated income statement as an expense as incurred. Expenditure on 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 and 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

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 charged to the income statement on a straight-line basis over the estimated useful lives of the tangible assets as follows:

Equipment	three years

Investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

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 indicate 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.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

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.

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 a modified 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. For share awards under the deferred share element of the annual bonus scheme, a deemed grant date of the first day of the financial year in which performance must be achieved is assumed.

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.

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.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group's revenues are currently entirely derived from the sale of pharmaceutical products. On 1 July 2018, the Group adopted IFRS 15 'Revenue from Contracts with Customers'. The Group has reviewed its contracts with customers and considers that all of its performance obligations have been fulfilled once the customer accepts delivery of the products, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The adoption of IFRS 15 did not result in a classification or measurement adjustment to retained earnings on transition or a restatement of comparative information.

The Group's revenues are reported net of provisions for damaged goods and goods where the minimum shelf life specified in customer contracts has expired. The provisions are calculated based upon historical experience.

2 Significant accounting policies and basis of preparation continued

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, IFRS IC 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 2019 was a loss of £27,886k (year ended 30 June 2018: profit of £154k).

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2018:

+ IFRS 9 'Financial Instruments';
+ IFRS 15 'Revenue from Contracts with Customers';
+ Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2;
+ Annual Improvements 2014–2016 cycle;
+ Transfers to Investment Property – Amendments to IAS 40; and
+ Interpretation 22 'Foreign Currency Transactions and Advance Consideration'.

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. All amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. All other accounting policies used in the financial information are consistent with those used in the prior year.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 16 'Leases': IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, since the distinction between operating and finance leases is removed. Under the new standard, an asset (that is, the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has assessed the potential effect of IFRS 16 on its consolidated financial statements. As at 30 June 2019 operating lease commitments amounted to £108k, as set out in Note 21. Adoption of IFRS 16 from 1 July 2019 will result in the Group recording a lease liability for these lease commitments as well as a corresponding right of use asset.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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

2.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's and Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

The critical accounting judgements relate to the recognition of deferred tax assets (Note 8). Other accounting judgements relate to the impairment of investments in and amounts owed by subsidiary undertakings, share options and deferred share bonus awards (which are described in Note 18).

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.

2 Significant accounting policies and basis of preparation continued

2.3 Critical accounting judgements and key sources of estimation uncertainty continued
Impairment of investments in and amounts owed by subsidiary undertakings
The Company has an investment in and amounts owed to it by its subsidiary company Diurnal Limited. The net carrying value of this aggregated investment and intercompany balance is assessed annually in line with IFRS requirements in order to evaluate if there are any impairment triggers. If a trigger is identified a full valuation assessment is required.

Such a valuation assessment, when performed, is to assess whether the aggregated carrying value of the subsidiary and any intercompany balance owed by the subsidiary to the Company is impaired. This assessment involves comparing the net assets of the subsidiary and their future discounted cash flows to the aggregated carrying value of the investment and intercompany balance. The key estimates in the model include:

+ market size and product penetration;
+ costs of manufacturing;
+ costs of development;
+ probability of achieving product approvals and/or successful country launches; and
+ discount rate.

Where an impairment is identified using this discounted cash flow approach, the Company uses its market capitalisation as at the balance sheet date as a proxy for fair value and then estimates the impairment based on the difference between the market capitalisation and aggregated book value for the investment and intercompany balances, ignoring the impact of any estimated premium for control and costs to effect such a change of control. The impairment is recognised as a charge in the Company income statement.

2.4 Going concern
For the year ended 30 June 2019, the Group made an operating loss of £14.5m on revenue of £1.0m and used net cash in operating activities of £13.7m. Cash and cash equivalents at 30 June 2019 were £9.1m.

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 2020. Based on this, additional funding is expected to be required by the end of Q1 2020 to support the Group's and the Company's going concern status. Dependent upon the funds raised, and the level of income generated from licensing activities, further funding may be required to reach profitability.

The Group completed a £5.9m fundraising with existing and new investors in June 2019. The Directors have a reasonable expectation that the Group will be able to raise further financing, which could come from a variety of sources, to support its ongoing development and commercialisation activities, following the anticipated completion of marketing authorisation applications for Chronocort® in Europe and Alkindi® in the US, both expected in Q4 2019. 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 its late-stage pipeline outside of Europe. However, there can be no guarantee 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 Group does not successfully raise new financing, the Directors consider that the Group would be able to reduce expenditure on its development programmes, potentially extending the Group's cash resources to more than 12 months from the date of signing the financial statements.

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. The Board considers it appropriate to report its segments as follows because this is how the Board and management assess the performance of the Group's segments:

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

3 Segmental information continued

Segmental results are calculated on an IFRS basis. All revenue is recognised at a point in time rather than over time.

	Alkindi® Year ended 30 June 2019 £000	Chronocort® Year ended 30 June 2019 £000	Central and early-stage Year ended 30 June 2019 £000	Total Year ended 30 June 2019 £000	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
Revenue	**1,044**	**—**	**—**	**1,044**	73	—	—	73
Operating loss	**(1,935)**	**(5,954)**	**(6,637)**	**(14,526)**	(2,685)	(6,210)	(7,884)	(16,779)
Financial income	**—**	**—**	**130**	**130**	—	—	95	95
Financial expense	**—**	**—**	**—**	**—**	—	—	(221)	(221)
Taxation	**—**	**—**	**2,108**	**2,108**	—	—	2,282	2,282
Loss for the year	**(1,935)**	**(5,954)**	**(4,399)**	**(12,288)**	(2,685)	(6,210)	(5,728)	(14,623)

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

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
UK	**300**	—
Rest of Europe	**744**	73
	1,044	73

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

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Customer A	**300**	—
Customer B	**291**	—
Customer C	**151**	—
Customer D	**137**	17
Customer E	**134**	55
Other customers	**31**	1
	1,044	73

	Alkindi® 30 June 2019 £000	Chronocort® 30 June 2019 £000	Central and early-stage 30 June 2019 £000	Total 30 June 2019 £000	Alkindi® 30 June 2018 £000	Chronocort® 30 June 2018 £000	Central and early-stage 30 June 2018 £000	Total 30 June 2018 £000
Segment assets	**1,303**	**357**	**11,803**	**13,463**	315	1,642	20,585	22,542
Segment liabilities	**(765)**	**(669)**	**(1,085)**	**(2,519)**	(842)	(2,967)	(1,852)	(5,661)
Total net assets/(liabilities)	**538**	**(312)**	**10,718**	**10,944**	(527)	(1,325)	18,733	16,881
Depreciation, amortisation and impairment	**4**	**1**	**17**	**22**	1	1	12	14
Capital expenditure	**—**	**—**	**25**	**25**	—	—	19	19
Capitalised development costs	**37**	**—**	**—**	**37**	15	—	—	15

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

4 Expenses and auditors' remuneration

Loss for the year is after charging/(crediting):

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Inventory expense to the income statement[1]	**224**	15
Depreciation	**18**	11
Amortisation[2]	**4**	3
Research and development expenditure	**8,690**	10,024
Operating lease expense	**133**	88
Movement in employers NI accrual regarding share-based payments[3]	**(573)**	277
Auditors' remuneration:		
– Fees payable to the Company's auditors' for the audit of the parent company and consolidated financial statements	**38**	26
– Auditing the accounts of the subsidiary pursuant to legislation	**7**	7
Total auditor remuneration	**45**	33

1. All cost of sales expense relates to inventory.
2. Amortisation of intangible assets is included in administrative expenses in the income statement.
3. The Group accrues for employer National Insurance contributions that may become due on unexercised share-based payments that are not HMRC tax-advantaged.

5 Staff costs

The monthly 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 2019 Number	Year ended 30 June 2018 Number
Research and development	**15**	14
Administration	**12**	9
	27	23
Non-Executive Directors	**4**	4
	31	27

Their aggregate remuneration, including Directors, comprised:

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Wages and salaries	**2,413**	2,019
Non-Executive Director fees	**138**	123
Social security	**312**	215
Pension	**147**	93
Other benefits	**37**	24
Share-based payments (see Note 18)	**825**	808
	3,872	3,282

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.

Share-based payment expense of £566k in respect of Directors was charged to the income statement during the year (2018: £501k).

Total Directors' emoluments disclosed in the Remuneration Report (excluding the deferred element of the bonus) is £634k. Aggregate key management personnel remuneration is £1,200k (being the sum of the above share-based payment expense and Directors' emoluments).

5 Staff costs continued

The above figures are for the consolidated Group. The following costs were recognised in the Company only accounts:

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Non-Executive Director fees	**138**	123
Social security	**10**	14
Share-based payments	**12**	50
	160	187

In both the current and prior year these costs relate to the four Non-Executive Directors.

6 Finance income

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Interest receivable on cash and cash equivalents and term deposits	**130**	95
Total finance income	**130**	95

7 Finance expenses

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Total interest payable on loans	**—**	221
Total finance expense	**—**	221

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.

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. 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).

With effect from the year ended 30 June 2017, the Group has reflected 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 2018 reflects the R&D tax credit claim for the year ended 30 June 2018, which was received from HMRC in February 2019. The amount in respect of the year ended 30 June 2019 has not yet been agreed with HMRC, although there is no reason to believe that this claim will be rejected.

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Current tax:		
– UK corporation tax on losses of year	**—**	—
– Research and development tax credit receivable for the current year	**(2,105)**	(2,275)
– Prior year adjustment in respect of research and development tax credit	**(3)**	(7)
Deferred tax:		
– Origination and reversal of temporary differences	**—**	—
Tax on loss on ordinary activities	**(2,108)**	(2,282)

8 Taxation continued

Reconciliation of total tax credit

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

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Loss on ordinary activities before tax	**(14,396)**	(16,905)
Tax at the standard rate of UK corporation tax of 19% (2018: 19%)	**(2,735)**	(3,212)
Effects of:		
– Expenses not deductible for tax purposes	**35**	154
– Depreciation in excess of capital allowances	**(2)**	(2)
– Enhanced research and development relief	**(906)**	(978)
– Share-based payments	**134**	(62)
– Prior year adjustment in respect of research and development tax credit	**(3)**	(7)
– Tax losses carried forward	**1,369**	1,825
Total tax credits for the year	**(2,108)**	(2,282)

The standard rate of UK corporation tax has been 19% from 1 April 2017, giving rise to an effective rate of tax for the year ended 30 June 2019 of 19% (year ended 30 June 2018: 19%).

The Group has accumulated losses available to carry forward against future trading profits of £23.3m (2018: £15.8m). 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 £4.0m (2018: £2.7m). 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 2019 £000	Weighted average number of shares 2019 000	Loss per share 2019 £	Loss for the year 2018 £000	Weighted average number of shares 2018 000	Loss per share 2018 £
Basic and diluted	**(12,288)**	**62,390**	**(0.20)**	(14,623)	54,596	(0.27)

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 2017	39	—	39
Additions	—	15	15
Balance at 30 June 2018	39	15	54
Additions	—	37	37
Balance at 30 June 2019	**39**	**52**	**91**
Amortisation			
Balance at 30 June 2017	35	—	35
Charge for the year	2	1	3
Balance at 30 June 2018	37	1	38
Charge for the year	2	2	4
Balance at 30 June 2019	**39**	**3**	**42**
Net book value			
At 30 June 2017	4	—	4
At 30 June 2018	2	14	16
At 30 June 2019	**—**	**49**	**49**

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 the economic benefit will flow to the Company. 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.

11 Property, plant and equipment

Group	Equipment £000
Cost	
Balance at 30 June 2017	34
Additions	19
Balance at 30 June 2018	53
Additions	25
Disposals	(1)
Balance at 30 June 2019	**77**
Depreciation	
Balance at 30 June 2017	16
Charge for the year	11
Balance at 30 June 2018	27
Charge for the year	18
Disposals	(1)
Balance at 30 June 2019	**44**
Net book value	
At 30 June 2017	18
At 30 June 2018	26
At 30 June 2019	**33**

12 Inventories

	2019 £000	2018 £000
Work in progress	**521**	14
Finished goods	**151**	109
	672	123

13 Investment in subsidiary undertakings and amount owed by 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 initial value of the investment was £15,351k. During the year ended 30 June 2018, 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. 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.

Group company	Country of incorporation	Registered address	Proportion of shares held and voting rights	Activity
Diurnal Limited	UK	Cardiff Medicentre Health Park Cardiff CF14 4UJ	100%	Pharmaceutical development and supply
Diurnal Europe B.V.	The Netherlands	Van Heuven Goedhartlaan 935A 1181 LD Amstelveen	100% (held indirectly)	Holding European marketing authorisations
Diurnal Group plc Employee Benefit Trust	Jersey	*of trustee:* Link Trustees (Jersey) Limited 12 Castle Street St Helier JE2 3RT	—	Employee share scheme

Under IFRS, the Employee Benefit Trust is treated as an extension of the Group and the Company as it is controlled and therefore consolidated.

During the current year an impairment assessment of the investment in and loan to the subsidiary was undertaken. This assessment involved comparing the net assets of the subsidiary and their future discounted cash flows to the aggregated carrying value of the investments and intercompany balance (see Note 2.3 for further details).

An impairment was identified using this discounted cash flow approach. The Company proceeded to use its market capitalisation as at the balance sheet date as a proxy for fair value and then estimated the impairment based on the difference between market capitalisation and aggregated book value for the investment and intercompany balances, ignoring the impact of any estimated premium for control and costs to effect such a change of control.

The impairment, £28,040k, was determined on an aggregate basis. The Company has chosen to recognise the impairment firstly against the investment and secondly against the intercompany loan balance. As such the investment was fully impaired (£15,351k) and the remaining £12,689k was recognised against the carrying value of the intercompany loan.

13 Investment in subsidiary undertakings and amount owed by subsidiary undertakings continued

Company	Investment £000	Loan to subsidiary £000
Cost		
Balance at 30 June 2017	15,351	10,923
Additions	—	13,240
Balance at 30 June 2018	15,351	24,163
Additions	—	14,730
Balance at 30 June 2019	**15,351**	**38,893**
Impairment		
Balance at 30 June 2017	—	—
Balance at 30 June 2018	—	—
Charge for the year	15,351	12,689
Balance at 30 June 2019	**15,351**	**12,689**
Carrying value at 30 June 2017	15,351	10,923
Carrying value at 30 June 2018	15,351	24,163
Carrying value at 30 June 2019	**—**	**26,204**

14 Trade and other receivables

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Trade receivables	**510**	77	**—**	—
VAT recoverable	**219**	732	**39**	34
Prepayments	**482**	1,904	**26**	20
Other debtors	**246**	105	**—**	—
	1,457	2,818	**65**	54

15 Cash and cash equivalents

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Cash at bank and on hand	**9,147**	17,284	**8,895**	17,021

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 19. 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.

16 Trade and other payables

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Trade payables	**1,145**	3,159	**158**	19
Other payables	**37**	9	**—**	—
Other tax and social security	**82**	72	**—**	—
Accrued expenses	**1,255**	2,421	**84**	112
	2,519	5,661	**242**	131

The Group accrues for employer National Insurance contributions that may become due on unexercised share-based payments that are not HMRC tax-advantaged. In the current year £16k of the accrual has been classified as a non-current liability. The comparative amount of £76k has not been reclassified as the amount is not considered material.

17 Share capital and reserves

	2019		2018	
	Number	**£000**	Number	£000
Authorised				
Ordinary shares of £0.05 each	**84,528,382**	**4,226**	61,336,523	3,067
Issued and fully paid				
Ordinary shares of £0.05 each	**84,528,382**	**4,226**	61,336,523	3,067

The following table lists all shares issued in the year ended 30 June 2019:

Date of issue	Number	Nature of issue	Consideration	Share capital £000	Share premium £000	Costs charged against share premium £000	Capitalisation of reserves £000
14 November 2018	363,543	Share option exercise	1	18	—	—	(17)
24 December 2018	10,792	Share option exercise	1	1	—	—	—
26 April 2019	11,022	Share option exercise	1	1	—	—	—
17 June 2019	2,190,945	EIS	569	109	460	—	—
18 June 2019	20,615,557	General admission	5,360	1,029	4,330	(395)	
		Late costs re FY18 fundraising				(11)	
	23,191,859		**5,932**	**1,159**	**4,790**	**(406)**	**(17)**

The £406k charged against share premium relates to transaction costs directly attributable to placings and open offers.

17 Share capital and reserves continued

Group reconstruction reserve
On 24 December 2015, the Company listed its shares on AIM. In preparation for this Initial Public Offering ('IPO') the Group was restructured. For the consolidated financial statements of the Group, the principles of reverse acquisition were applied which resulted in the creation of a Group reconstruction reserve.

Other reserve
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. As the convertible loan was a compound financial instrument containing a host financial liability and an equity component this resulted in the creation of an other reserve.

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.

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 this other reserve. 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 reserve to accumulated losses. This cleared other reserve to nil.

18 Share-based payments

At 30 June 2019, 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 and 32,374 share awards were 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 awards 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.

18 Share-based payments continued

Share options continued

Performance share awards under the Diurnal Group plc Long Term Incentive Plan (LTIP) continued

Vesting

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

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

IFRS 2 valuation – 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 modified 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	**2019**	**2019**	2018	2018	2017
Deemed grant date	**17 December 2018**	**4 December 2018**	11 December 2017	17 October 2017	8 May 2017
Award type	**Performance share**	**Performance share**	Performance share	Performance share	Performance share
Share price	**£0.22**	**£0.23**	£1.43	£1.35	£1.26
Exercise price	**£0.00**	**£0.00**	£0.05	£0.05	£0.05
Expected volatility	**53.1%**	**53.4%**	10.8%	10.7%	25.9%
Expected option life	**5 years**	**5 years**	5 years	5 years	5 years
Expected dividends	**0.00%**	**0.00%**	0.00%	0.00%	0.00%
Risk free interest rate	**0.89%**	**6.88%**	0.75%	0.73%	0.46%
Fair value per award	**£0.220**	**£0.230**	£1.382	£1.297	£1.211
Number of options/awards	**437,303**	**1,217,259**	39,033	538,245	404,762

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

Prior to the year ended 30 June 2018, historical volatility was measured using a composite basket of similar companies in the biotechnology sector, given the limited 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.

18 Share-based payments 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:

	2019		2018	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	**0.144**	**4,828,288**	0.154	4,427,217
Granted during the year	**0.000**	**1,654,562**	0.050	577,278
Exercised during the year	**0.003**	**(374,335)**	0.093	(150,582)
Lapsed during the year	**0.076**	**(167,792)**	0.050	(25,625)
Outstanding at the end of the year	**0.052**	**5,940,723**	0.144	4,828,288
Exercisable at the end of the year	**0.180**	**3,003,378**	0.144	2,844,114

The ability to exercise performance share awards is subject to an assessment by the Remuneration Committee at the end of the performance period. As at 30 June 2019 and 30 June 2018 no performance share awards have reached the end of the performance period.

As at 30 June 2019, the weighted average remaining contractual life of all other share awards outstanding at the year end was 3.9 years (30 June 2018: 4.8 years).

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 36 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.

With effect from the year ended 30 June 2019, the deferred share awards are issued as zero cost share options, through the Company's Employee Benefit Trust. As a result, the fair value of share options using the Black Scholes valuation model is equal to the share price at the date of issue of the deferred share awards.

18 Share-based payments continued

Deferred share bonus awards continued
IFRS 2 valuation continued
Measurement assumptions are as follows:

Financial year ended	**30 June 2019**	Financial year ended	30 June 2018
Deemed grant date	**1 July 2018**	Deemed grant date	1 July 2017
Award type	**Deferred bonus share**	Award type	Deferred bonus share
Share price	**£1.83**	Share price	£1.31
Exercise price	**£0.000**	Exercise price	£0.050
Expected volatility	**13.4%**	Expected volatility	20.3%
Expected option life	**3 years**	Expected option life	3 years
Expected dividends	**0.00%**	Expected dividends	0.00%
Risk free interest rate	**0.77%**	Risk free interest rate	0.38%
Fair value per award	**£1.83**	Fair value per award	£1.26
Deemed number of options	**371,817**	Deemed number of options	114,102

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:

	2019		2018	
	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**	**114,102**	—	—
Exercised during the year	**—**	**—**	0.05	(109,293)
Lapsed during the year	**—**	**—**	—	—
Outstanding at the end of the year	**0.05**	**114,102**	—	—
Exercisable at the end of the year	**—**	**—**	—	—

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

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Share options	**423**	707
Deferred share awards	**402**	101
	825	808

19 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 addresses 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.

19 Financial instruments continued

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 invests its surplus funds in money market and short-term bank deposits. The Group would review the balance between fixed and floating rate debt if it takes on any future debt.

Liquidity risk

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

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 2019					
Group	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	1,145	1,145	1,145	—	—	—
Accrued expenses	1,255	1,255	1,255	—	—	—
	2,400	2,400	2,400	—	—	—

	30 June 2018					
Group	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	—	—	—
Accrued expenses	2,421	2,421	2,421	—	—	—
	5,580	5,580	5,580	—	—	—

	30 June 2019					
Company	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	158	158	158	—	—	—
Accrued expenses	84	84	84	—	—	—
	242	242	242	—	—	—

	30 June 2018					
Company	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	19	19	19	—	—	—
Accrued expenses	112	112	112	—	—	—
	131	131	131	—	—	—

19 Financial instruments continued

Currency risk

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

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

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
1% increase in Euro	**1**	(7)
1% decrease in Euro	**(1)**	7
1% increase in US Dollar	**—**	(35)
1% decrease in US Dollar	**—**	36

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. The trade receivables are considered to be low risk, and any loss allowance would be immaterial.

The loan to subsidiary undertaking is subject to IFRS 9's new expected credit loss model. This loan is considered to be high risk, and therefore the impairment provision is determined as a lifetime expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of £12,689k on 30 June 2019 (previous loss allowance was nil).

Interest rate risk of financial assets

The following table shows, by currency, the effective interest rates the Group has received on its cash and cash equivalents during the year.

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Cash and cash equivalents		
Floating rate – GBP	**1.15%**	0.47%
Floating rate – EUR	**0.00%**	0.00%
Floating rate – USD	**2.71%**	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 2019 £000	Year ended 30 June 2018 £000
1% increase in Sterling interest rate	**89**	138
1% decrease in Sterling interest rate	**(89)**	(138)

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.

19 Financial instruments continued

Financial assets at amortised cost

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Trade receivables	**510**	77	**—**	—
Other debtors	**246**	105	**—**	—
Amount owed by subsidiary undertaking	**—**	—	**26,204**	24,163
	756	182	**26,204**	24,163

Financial liabilities at amortised cost

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Trade payables	**1,145**	3,159	**158**	19
Accrued expenses	**1,255**	2,421	**84**	112
	2,400	5,580	**242**	131

20 Capital commitments

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

21 Lease commitments

The Group's total commitments under non-cancellable operating leases are as follows:

	2019		2018	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Not later than one year	**91**	**1**	113	1
Later than one year but not later than five years	**14**	**2**	16	4
	105	**3**	129	5

22 Contingent liabilities

Subsequent to the year end, the Group entered into an agreement with its manufacturing partner, Glatt Pharmaceutical Services GmbH & Co. KG ("Glatt"), for the procurement, installation and validation of a new capsuling machine to increase the capacity and decrease unit costs for Alkindi® and, in the event that it is approved for sale, Chronocort®. The total cost (including commissioning) of the capsuling machine is estimated at €1.3m, which will be recovered by Glatt over a five-year period by way of a fixed charge per capsule produced. In the event that there is a shortfall between the total cost of €1.3m and the cost recovered by Glatt over the five-year period, the Group will be liable to fund the shortfall.

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) were recorded, excluding VAT, during the year:

	Year ended 30 June 2019 £000	Year ended 30 June 2018 £000
Purchase of goods and services		
IP Group plc and subsidiaries	**29**	29
Recharges between Group companies		
Charges from Diurnal Group plc to Diurnal Limited	**513**	672
Charges from Diurnal Europe B.V. plc to Diurnal Limited	**82**	18
	624	719

Purchase of goods and services from related parties comprises provision of Non-Executive Directors, management and consulting services, corporate finance services, recruitment fees and 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. There were no other related party transactions with key management personnel.

Employee Benefit Trust
In the current year the Company set up an Employee Benefit Trust for the purposes of buying and selling shares on the employees' behalf. A total of 11,022 shares were purchased by the Trust during the year ended 30 June 2019.

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 OF ANNUAL GENERAL MEETING

Notice is given that the 2019 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 Thursday 21 November 2019 at 11.00 a.m. for the following purposes:

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

1. To receive and adopt the Company's audited Annual Report and Accounts and the Strategic Report and Directors' and Auditors' Reports thereon for the year ended 30 June 2019.
2. To receive and approve the Directors' Remuneration Report contained within the Annual Report and Accounts for the year ended 30 June 2019.
3. To reappoint PricewaterhouseCoopers LLP, which were appointed as auditors since the last Annual General Meeting, as auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid.
4. To authorise the Directors or any Audit Committee of the Directors to determine the remuneration of the auditors.
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 £1,410,650.02 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 £2,821,300.03 or, if less, the nominal value of two thirds of the issued share capital of the Company (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 12.1) in connection with an offer by way of a rights issue or other pre-emptive offer:

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

   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

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

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 13.1 of this resolution up to an aggregate nominal amount of £211,597.50 (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 12 and pursuant to section 570 of the Act, the Directors be and are generally empowered in addition to any authority granted under resolution 13 to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 12 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

7.1 up to a nominal amount of £211,597.50 (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 12,687,386 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
23 September 2019

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 19 November 2019. 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 21 November 2019 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; if you need help with voting online, please contact our Registrar, Link Asset Services (previously called Capita), on 0371 664 0391 if calling from the UK, or +44 (0) 371 664 0391 if calling from outside of the UK, or email Link at shareholderenquiries@linkgroup.co.uk; 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 19 November 2019.
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 19 November 2019. 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.

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 1 October 2019 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 84,639,001 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 1 October 2019 are 84,639,001.

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 Auditors' Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with auditors 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 auditors not later than the time when they make 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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